# Jewel Companies, Inc.
# Annual Report 1980

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**Annual Meeting**
Monday, June 10, 1981
1:30 P.D.S.T. at
Security Pacific National Bank
333 South Hope Street
Los Angeles, California

**Transfer Agent and Registrar**
Manufacturers Hanover Trust Company
Four New York Plaza
New York, New York 10015

**Stock Listing**
**Common Stock**
New York Stock Exchange
Midwest Stock Exchange
**Series A $2.31 Cumulative Convertible Preferred Stock**
New York Stock Exchange

**SEC Form 10-K**
Copies of the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission may be obtained without charge upon request to:

Robert F. Berrey,
Secretary
Jewel Companies, Inc.
5725 N. East River Road
Chicago, Illinois 60631

**Corporate Office**
O'Hare Plaza
5725 N. East River Road
Chicago, Illinois 60631

**Shareholders of Record**
Common Stock: 13,023
Series A $2.31 Cumulative Convertible Preferred Stock: 1,378

345

**Jewel Companies, Inc.**
O'Hare Plaza
5725 N. East River Road
Chicago, Illinois 60631

# Results in Brief

Jewel Companies, Inc.
Diversified Retailers

| | 1980 | | 1979 | % Change 1980 vs. 1979 | |
|---|---|---|---|---|---|
| (In thousands except per share data) | LIFO (A) | FIFO (B) | FIFO | LIFO (A) | FIFO (B) |
| Sales | $4,267,922 | $4,267,922 | $3,684,929 | 15.8% | 15.8% |
| Earnings of U.S. Companies From Continuing Operations | $ 40,131 | $ 50,923 | $ 34,770 | 15.4% | 46.5% |
| Equity in Net Earnings of Aurrera, S.A. | 24,416 | 24,416 | 14,543 | 67.9 | 67.9 |
| Earnings From Continuing Operations | 64,547 | 75,339 | 49,313 | 30.9 | 52.8 |
| Earnings (Loss) From Operation Subject to Disposition | (8,654) | (8,654) | 1,373 | — | — |
| Net Earnings | $ 55,893 | $ 66,685 | $ 50,686 | 10.3% | 31.6% |
| Primary Earnings Per Average Common Share Outstanding: | | | | | |
| Earnings of U.S. companies from continuing operations | $ 3.36 | $ 4.32 | $ 3.12 | 7.7% | 38.5% |
| Equity in net earnings of Aurrera, S.A. | 2.16 | 2.16 | 1.30 | 66.2 | 66.2 |
| Earnings from continuing operations | 5.52 | 6.48 | 4.42 | 24.9 | 46.6 |
| Earnings (loss) from operation subject to disposition | (.76) | (.76) | .12 | — | — |
| Net earnings | $ 4.76 | $ 5.72 | $ 4.54 | 4.8% | 26.0% |
| Earnings of U.S. Companies From Continuing Operations as a Percent of Sales | .94% | 1.19% | .94% | | |
| Earnings From Continuing Operations as a Percent of Shareholders' Average Equity | 15.2% | 17.7% | 13.7% | | |
| Net Earnings as a Percent of Shareholders' Average Equity | 13.1% | 15.7% | 14.0% | | |
| Dividends Declared Per Common Share | $ 1.92 | $ 1.92 | $ 1.68 | | |
| Average Common Shares Outstanding | 11,293 | 11,293 | 11,155 | | |

(A) For 1980, the Company adopted the last-in, first-out (LIFO) method of inventory valuation for approximately 87% of its inventories.

(B) Because of the change to the LIFO method of inventory valuation, first-in, first-out (FIFO) data is presented as supplementary information in this and other supplementary and explanatory sections of this report for comparison to 1979 which was reported on the FIFO basis.

# 1980 Chairman's Letter

Jewel Companies, Inc. achieved a 16% increase in sales in 1980 and a 31% gain in consolidated earnings from continuing operations. On an accounting basis comparable with that used in prior years, earnings from continuing operations increased 53%. During the year, we made several major moves designed to help accomplish strategic plans and financial goals which have been set for the Company. These have been outlined in prior communications to you and are again reviewed in a section of this Report.

Jewel's 1980 financial results are best understood in the context of these major events:

- The Company changed from the first-in, first-out (FIFO) accounting method of inventory valuation to the last-in, first-out (LIFO) method. The impact on 1980 reported earnings was substantial—$10,792,000 or $.96 per share. The favorable impact in terms of reduced taxes and thus of increased cash flow will also be substantial and the compelling reason for the change.
- Sav-On-Drugs, Inc. joined Jewel Companies on November 6, 1980, thus adding importantly to the Company's sales base and to its earnings outlook while favorably adding to the geography of our Company and to its mix of businesses. Sav-On contributed $3.5 million, or $.12 per share after preferred dividend requirements, to the Company's LIFO earnings, all in the final quarter of the year.
- The Company's Jewel Food Stores in Milwaukee, Wisconsin, which were unprofitable, were sold at an after-tax cost of approximately $816,000 or $.07 per share.
- We announced plans to discontinue ownership of Jewel's original business, the Home Shopping Service, conveying the assets to a Cooperative which will be organized to carry on the business and whose members and managers will be former Jewel employees. The impact on 1980 net earnings related to this transaction was $8,654,000 or $.76 per share.

### 1980 Consolidated Results

On the LIFO basis, consolidated 1980 net earnings amounted to $55,893,000 or $4.76 per share. On a comparable 1979 accounting basis (FIFO), the Company achieved 1980 net earnings 32% ahead of 1979, the previous record year, despite charges of $.83 per share against earnings related to the sale of Milwaukee stores and the disposition of Jewel Home Shopping Service. Consolidated 1980 net earnings (FIFO), after these charges, were $66,685,000, $5.72 per share, compared to $50,686,000, $4.54 per share in 1979 (also FIFO).

As we stated in Jewel's 1978 Annual Report, the Company's minimum target has been a 15% return on shareholders' equity. While we had not expected to reach this until 1981, we are pleased to report that Jewel Companies, Inc. achieved a 15.2% return on equity in 1980 even after the substantial charge related to the LIFO conversion; on the basis of FIFO earnings from continuing operations, the return on equity was 17.7%.

### United States Operations

Sales of U.S. operations in 1980 were $4,267,922,000, an increase of 16% over 1979. In just seven years, the domestic sales of the Company have doubled and we expect them to double again in an even shorter period of time. U.S. earnings from continuing operations were $3.36 per share on a LIFO basis and $4.32 per share on a FIFO basis, compared with 1979 domestic earnings of $3.12 per share on a FIFO basis. A more detailed report on U.S. operations is included in the President's Report on page 5.

### Aurrera, S.A., Mexico

Jewel's 1980 earnings from its investment in Aurrera, S.A. amounted to $2.16 per share compared to $1.30 per share in 1979, an increase of 66%. Each of the Aurrera businesses continues to be highly successful and to achieve substantial growth. Aurrera's sales during the period of Jewel's 1980 fiscal year increased 47%.

Jewel holds 41.7% of the outstanding shares of this leading Mexican retailer, and dividends received, net of Mexican taxes, amounted to $7,688,000 in 1980, an increase of 48% over 1979. The peso-dollar relationship continued to be reasonably stable with a modest peso devaluation of 2% in 1980.

A more detailed Aurrera report starts on page 14.

### Repositioning Jewel

During the latter half of the 1970's, Jewel management made an in-depth study of the Company's strengths and weaknesses and of external influences with which we expected to deal in the years ahead. We first reported on these assessments in the 1976 Jewel Annual Report and since have been following a strategic plan designed to make certain changes in the Company's characteristics. In a special section starting on page 8 there are outlined Jewel's investment plans for the years 1981-83 and how we expect their fulfillment to further change the business mix and the geographic balance of the Company. The next few paragraphs highlight the changes already brought about by the repositioning program.

Growing with a new business:

The first Jewel T Discount Grocery store was opened in New Port Richey, Florida, in February, 1977. At the end of 1980, the Company had 138 of these limited-line low-price stores operating in Florida, Pennsylvania, New Jersey, Delaware, Georgia, Texas and California, all new retail markets for the Company. Already generating significant sales and making planned progress toward its profit targets, Jewel T is a vehicle for changing the geographic coverage of our Company through a retail segment that meets one of our basic objectives, that of offering a variety of value choices to our customers.

Disinvestment:

Having decided that the drug store, not the large discount department store, was our choice for growth in general merchandise, the Company in 1978 sold its Turn*Style division which was providing a less than satisfactory return on investment. We made a similar choice with respect to the unprofitable Republic Lumber home improvement stores, again freeing the balance sheet of unsatisfactory assets. And, as already reported, Jewel chose in 1980 to leave the Milwaukee market after a long period of operating losses. Through these transactions, not only did we free up assets which were not contributing to our financial goals but management has since been able to address itself to more promising opportunities.

Improving our mix:

Both through our investment emphasis on Osco Drug Stores and our concentration on the combination food/drug store as the Company's primary retailing concept, we have enhanced our ability to generate net profit margins that are more satisfying and more dependable than is typical of the traditional supermarket business.

The addition of Sav-On:

Jewel is proud to have attracted Sav-On-Drugs, Inc., thereby adding 146 large, exceptionally well-operated promotional drug stores and an impressive team of people. Located primarily in Los Angeles and San Diego, certainly two of the country's most dynamic markets, but with stores also in the growth areas of Las Vegas, San Jose, and Houston, Sav-On has exceptional opportunities for continued growth. Through a combination of cash and convertible preferred stock, Jewel acquired Sav-On for about $138 million. By contrast, Jewel's disinvestments in recent years add up to a reduction of approximately $40 million in unsatisfactorily productive assets. The new assets add considerably to the Company's earnings potential while those of which we divested were a negative influence.

Sav-On, described in another part of this Report, represents a singularly important strategic move for your Company. Furthermore, we continue to be interested in attracting another one or more similarly high quality companies into Jewel, to further realize our repositioning goals.

Jewel's original business:

With 929 routes in operation at the end of fiscal 1980, about one-half the number existing ten years ago, it is clearly time to reposition the Jewel Home Shopping Service for the benefit of its people and of Jewel shareholders. This is expected to be accomplished through the creation of a Cooperative whose members will be the owners of the 800 or more Routes which are expected to remain in business under individual ownership. The management of the Cooperative will be led by Betty McFadden, Lance Devereaux and other highly capable and experienced individuals who have been involved in the Jewel Routes business for many years.

Believing that the outlook for this business was not favorable within the corporate framework of Jewel, it seemed inevitable that we faced a write-off of assets at some point in time. We decided that the best time was now, while the basic condition of the business is such as to promise success in a new environment, one based primarily on entrepreneurial interests and motivation. The way to accomplish this is, in effect, to turn the assets over to a newly formed Cooperative which will realize its working capital needs out of the sale of inventories and customer receivables to the individual Route owner-operators. The transaction is structured so that Jewel expects some repayment when the Cooperative has produced cash in excess of its working capital needs.

This move saves jobs and creates fresh opportunities. It eliminates what quite likely would be an unprofitable business for Jewel in the years ahead. Jewel's loss is less than would be required to liquidate the business. We are especially pleased to have been able to work out a transaction which seems attractive to the more than 1,200 people involved.

LIFO Accounting:

The final major step which, in a real sense, further repositions this Company is the switch from FIFO to LIFO accounting for inventory valuation. At the current and foreseeable cost of capital, it seems to us that Jewel shareholders are best served by the accounting method which generates the most cash flow even though it reduces reported earnings.

## Management and Director Changes

Donald S. Perkins retired as Chairman of the Board at the June 16, 1980 Annual Meeting, after ten years in that office, and continues as Chairman of the Executive Committee. Weston R. Christopherson was elected to succeed Mr. Perkins and Richard G. Cline was elected President and Chief Operating Officer. Lawrence Howe was elected Vice Chairman and Director.

Also at the June 16, 1980 Shareholders' Meeting Louis V. Gerstner, Executive Vice President and Director of American Express Company, was elected to our Board. At the December 22, 1980 Board of Directors meeting, Ira D. Brown and Robert L. Call, Chairman and President, respectively, of Sav-On-Drugs, Inc. were elected Directors of Jewel; Robert F. Berrey was elected General Counsel of the Company, replacing Mr. Howe in that responsibility; and Bruce Margolis was elected to the new corporate office of Vice President, Human Resources. In his Report, Mr. Cline will mention several key changes in the operating companies.

## The Future

While our Country is faced with a variety of serious difficulties, it is safe to say that Jewel people seldom have felt better about their Company nor had greater confidence in their ability to serve customers and to manage the business in a productive fashion.

The operating companies have set budgets for 1981 which call for levels of performance greater than the record results of 1980. Jewel management is free to concentrate on building upon Jewel's strengths, against clearly defined strategies and objectives, and to search out new opportunites to further broaden and strengthen the Company. Our well-experienced management team is strong and highly motivated. The 31 most senior officers throughout Jewel have occupied senior executive roles an average of seven years and their average age is 48 years.

As is illustrated elsewhere in this Report, the Company's financial position is sound and provides a good degree of flexibility to meet new opportunities. We fully realize that events beyond our control can, if they occur, create difficulties and cause setbacks. We intend, however, to do everything we can to exert positive influences over those events which are ours to manage.

On behalf of Jewel Directors, I wish to thank each Jewel person for all that was contributed in 1980, not only to a successful year but to the Company's future. We appreciate the patronage of the millions of families who shop in our places of business. We thank the companies and individuals who are our suppliers of goods and services. And we remain grateful to Jewel shareholders for their confidence, interest and support.

Weston Christopherson

*Weston R. Christopherson*
*Chairman of the Board*
*Chief Executive Officer*

# Report of the President on 1980 U.S. Operations

*Joseph V. Bugos*

*Marshall V. Collins*

*Ronald J. Floto*

The Chairman's letter has described a number of recent events which reposition Jewel strategically for coming years. Complementing these changes, 1980 reflected a continuation of positive trends in Jewel's U.S. operations. Excluding Sav-On which was not a Jewel company in 1979 and the Jewel Home Shopping Service which will not be a Jewel company in 1981, U.S. earnings of Jewel Companies, Inc., increased to $36,583,000 on a LIFO basis; on a FIFO basis, earnings were up 35% to $46,837,000. Eight of the ten domestic Jewel companies included in this comparison achieved earnings increases for the year, and six set new earnings records in 1980 on an accounting basis comparable to 1979. Supplemental comments in this section regarding operating income trends on a FIFO basis are presented for ease of comparability to 1979 and prior years.

**Supermarket Results**

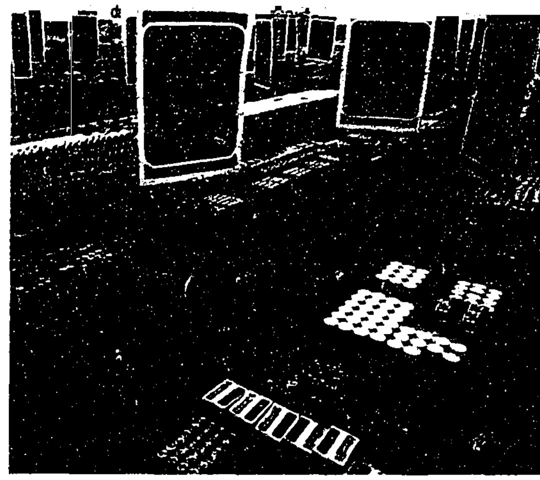
Total sales of Jewel's four supermarket companies in 1980 were 7% more than in 1979. Each of these companies achieved sales records. Identical store sales increased 8%. While total supermarket operating earnings measured on a LIFO basis were slightly less than 1979 FIFO results, each of these companies achieved record earnings on a comparable FIFO basis with total supermarket operating earnings up 15%.

Early in the year, inflation in food prices moderated while labor and other costs continued to rise at double digit rates; thus expenses were increasing at faster rates than dollar sales. Responding to these conditions, overhead reduction and productivity programs were strengthened. LIFO operating margins in 1980 were less than the FIFO margins of 1979, but on a comparable FIFO basis, they improved to 2.2% of sales compared to 2.0% in 1979. Emphasis on productivity and cost containment will continue so that the Company's supermarket businesses will be in the best possible position to offer values to our customers and to respond if necessary to market developments and changes in the economy.

Jewel Food Stores

In the Jewel Food Stores, LIFO operating earnings were modestly lower than 1979 FIFO earnings, but on a comparable FIFO basis increased 13%, a particularly good gain in view of losses related to selling the Milwaukee stores which are included in this comparison.

With both economic recession and inflation, 1980 was another challenging year for food shoppers. People in the Jewel Food Stores tried their best to respond to the times. Building on the success of the 170-item generic product line, Jewel people sought out supplies of additional essential food items which could be offered at consistently lower prices. These were merchandised along with generics to create a 350-item discount food store within Jewel's



A

full-service, full-variety supermarkets. Jewel's "Store Within a Store" values provided new choices to help people manage their food budgets in difficult times, and the program succeeded in enhancing both customer loyalty and Jewel's reputation for good value.

Jewel Food Stores concluded 1980 operating 207 units. In addition to the Milwaukee divestiture, seven small, outmoded supermarkets were closed during the year. Eighteen new stores were opened or significantly enlarged, 13 of these food-drug stores with Osco, and the number of large Jewel-Osco locations in Chicagoland and the Upper Midwest increased to 100 at year end. Two of the Jewel-Osco combination stores were new market entries in smaller cities close to Chicago; additional combination stores will open in new Midwest markets in 1981 and 1982.

A number of senior management changes in Jewel Food Stores were designed, among other reasons, to broaden the experience of talented individuals. Joseph V. Bugos, 45, who had been Group Vice President, Chicagoland Operations, was appointed Executive Vice President, Support Services. Marshall V. Collins, 39, formerly Group Vice President and General Manager, Midwest Stores, is now Executive Vice President, Chicagoland Operations. Ronald J. Floto, 38, is the new Group Vice President and General Manager, Midwest; he had been Group Vice President, Distribution and Systems.

Eisner Food and Agency Stores

Eisner people successfully challenged themselves to reduce expenses in stores and in support functions. Operating results of the Indianapolis Big E stores improved substantially. These factors helped Eisner celebrate its 80th anniversary with strong operating

B

*The Generic product display in a new Jewel-Osco (A) 65,000 square foot combination store recently opened in Chicago's inner city*

*This new Eisner-Osco combination store in Mattoon, Illinois (B), had its grand opening in January, 1981.*

earnings measured on a LIFO basis. Eisner achieved record results on a FIFO basis, 28% ahead of the prior record which occurred in 1978 and 119% ahead of 1979.

Four Eisner-Osco combination stores opened—two were replacements for small, outmoded food stores and two were existing supermarkets which were expanded and converted into combination stores. With these openings, Eisner continued to make significant progress in its plan of upgrading facilities in key markets. In addition to 32 corporate stores, Eisner was serving 59 Eisner Agency wholesale accounts at the end of the year.

A 77,000 square foot expansion of dry grocery space at the Eisner warehouse was completed in 1980, and underway at year end was renovation of existing space to enhance capabilities for handling perishable products.

Buttrey Food Stores

Operating earnings of Buttrey Food Stores computed on a LIFO basis were slightly less than 1979's FIFO results. On a comparable FIFO basis, operating earnings increased for the eleventh consecutive year and were 13% over 1979. With new Buttrey-Osco food-drug combination stores opened in Casper, Wyoming, and Pasco, Washington, 53 stores were in operation at year end of which 31 are food-drug common locations with Osco.

*The Buttrey-Osco combination food-drug facility in Cheyenne, Wyoming (C)*

*Osco employees Terry Pumphrey and Darnette Purdiman (D) compare notes on a product display*

C

Energy exploration and development in the Williston Basin and in the Rocky Mountain Overthrust Belt are contributing to rapid population growth in the Buttrey-Osco market area which extends from North and South Dakota west to the Cascade Mountains. Our strategies call for accelerated investment in this region. Planned for 1981 are six new or enlarged Buttrey-Osco combination food-drug stores, and the expansion of Buttrey's Great Falls distribution center is expected to get underway this summer.

Star Market Company

In the competitive New England market Star's LIFO operating earnings were moderately lower than the FIFO earnings of 1979, yet increased 5% on a comparable FIFO basis despite some increases in expense rates. Consumer research continued to confirm Star's leadership position in supermarket sales and reputation in the Boston area. Identical store sales increases were the strongest of our four supermarket companies and can be attributed partly to new customers who chose to shop at Star when a major competitor closed a number of stores in July. While it is expected that some of the closed stores will reopen in 1981 under various operating formats and ownership interests, Star people are challenging themselves to find ways to retain the loyalty of these shoppers.

Star concluded 1980 operating 53 corporate stores. Three remodelings were completed, including a major expansion of a key Rhode Island location as part of the continuing program to reinvest in this market. Six supermarkets too small to operate profitably under the Star corporate format were sold to former employees and now operate as Star Agency stores buying from Star merchandise and support services. Star currently serves eight independently owned stores in Massachusetts and New Hampshire; with its wholesaling program now fully organized, Star is actively seeking new wholesale accounts outside of its existing market areas.

**Drug Store Results**

Osco Drug, Inc.

1980 was a year of outstanding accomplishment for the people of Osco Drug. 1980 operating earnings measured on a LIFO basis were nearly equal to the FIFO results of 1979. Operating earnings on a comparable FIFO basis increased 36% on a 14% sales increase, substantially exceeding prior records. Identical Osco Drug store sales increased 8%.

With expense rates contained to 1979 levels, 1980 earnings were further strengthened by improved selling margins which resulted from a number of factors. Among them, new stores had less impact on what is now a relatively mature store base. Promotions for new and existing stores were carefully planned. Most importantly, Osco people gave concentrated attention to managing product flow and improving inventory turnover. Operating margins computed on a LIFO basis were less than FIFO

D

*Ronald D. Peterson*

*Robert C. Nakasone*

margins of 1979 but continued to increase on a comparable FIFO basis and were 4.3% of sales in 1980 compared to 3.6% in 1979.

1980 was another year of substantial investment in Osco with 24 new stores and seven enlargements compared to 24 new stores and three enlargements in 1979. Stores were opened in two new states, Nebraska and Colorado. Of the new and expanded stores in 1980, 11 were food-drug combination stores with one or another of the Jewel supermarket companies, eight were in regional malls, and five were opened in common locations with other food stores in markets not served by a Jewel supermarket company. With seven store closings, Osco completed 1980 operating 280 stores in 24 states. In 1981, Osco expects to open 30 new stores, 17 of them food-drug combination stores with a Jewel supermarket partner.

Sav-On-Drugs, Inc.

Sav-On's 1980 sales increased 13% over 1979. Ten new stores were opened, including one drug-home improvement combination store (Home Center). Two existing drug stores were expanded into Home Centers. Five new drug stores, three new Home Centers, and two major expansions/remodelings are planned for 1981.

In 1979, Sav-On acquired an existing 552,000 square foot general office and warehouse complex in Anaheim. New warehouse systems and automated merchandise handling equipment were installed in 1980. The warehouse is now fully operational and provides a capability important for the support of Sav-On's operations and growth.

**Other Operations**

For *White Hen Pantry* convenience stores, 1980 was another excellent year with record operating earnings 17% over 1979 on a 15% retail sales increase. Average earnings of White Hen Pantry franchisees increased to $37,000 from $35,000 in 1979. 1980 concluded with 244 stores.

While we are pleased with White Hen Pantry's 1980 results, we did not achieve our targeted growth for the year. Some real estate developers were unable to secure acceptable financing for planned projects which were to include White Hen Pantry units. For this reason, we have begun selectively to develop some higher potential new locations with Jewel financing arranged through real estate affiliates. We do not expect these arrangements to fulfill all of our growth opportunities, but they will keep some of the better projects moving while developers wait for an improved financing climate.

*Jewel T Discount Grocery Stores* concluded 1980 with 138 stores in seven states. Forty-four new stores opened during the year and six stores closed in locations where market potential was judged to be inadequate. Fifty-four new stores are planned for 1981, all of them within existing market areas.

With a major reshaping of operating and merchandising programs begun in September now complete, the Jewel T concept is on sound footing for continued growth and operating improvement. 1980 LIFO losses were less than 1979 FIFO losses. On a comparable FIFO basis 1980 operating losses were more than 30% below the prior year as operating trends improved consistently throughout the second half; the fourth quarter was close to the break-even level.

In April of 1980, Ronald D. Peterson, 42, who had been Executive Vice President and General Manager for the Chicagoland Jewel Food Stores, became Jewel T's President. His leadership contributed importantly to the accomplishments of the year's second half.

*Brigham's* 1980 sales decreased by 1% and operating earnings were up slightly from 1979 as sales and expense pressures continued. With three new ice cream and sandwich shops opened in 1980 and three closed, Brigham's year end total was 95 units of which 79 were franchised.

1981 begins with new leadership at Brigham's. Robert C. Nakasone, 33, who had been Brigham's Vice President, Marketing, and has 10 years of Jewel service, is Brigham's new President.

*Park Corporation* sales of its manufactured private label products to Jewel's food and drug stores increased, but 1980 operating earnings were less than 1979's record year because of flat sales to outside customers and price fluctuations in sugar and coffee which are important ingredients in Park's product mix.

*Mass Feeding Corporation* experienced a 10% increase in operating earnings during 1980 as a result of reduced overhead and improved overall manufacturing productivity. Mass Feeding's nutritious, low-priced school lunch products should have significant appeal if a decrease in federal funding for school lunch programs occurs as now seems likely.

*Richard G. Cline*
*President and*
*Chief Operating Officer*

# Investment Plans 1981-83

It is the Company's plan through 1983 to invest about $350 million in its presently existing businesses, about evenly spread over the three years. The plan is based primarily on the following strategies:

**1: To Continue Jewel's Emphasis On The Combination Food/Drug Store.**

Jewel opened its first such store nearly 20 years ago and today is one of the industry leaders in operating locations offering food, drug and general merchandise. In both established and new markets, Jewel expects to invest about $100 million in combination food/drug stores in this three-year period and by the end of 1983 will have over 200 locations selling both food and drug products.

**2: To Continue Jewel's Emphasis On Drug Retailing.**

Since its acquisition of 30 Osco Drug stores in 1961, Jewel has become one of the largest drug retailers in the U.S., with 280 Osco and 146 Sav-On locations in operation at the end of 1980 and with sales at an annual rate of about $1.5 billion. Osco and Sav-On will continue to invest importantly in new solo drug stores. We expect to open 65 or more drug stores in the three-year period, in addition to the drug segment of the combination store program. Thus about 20% of Jewel's 1981-83 total capital plan is dedicated to drug retailing in one form or another.

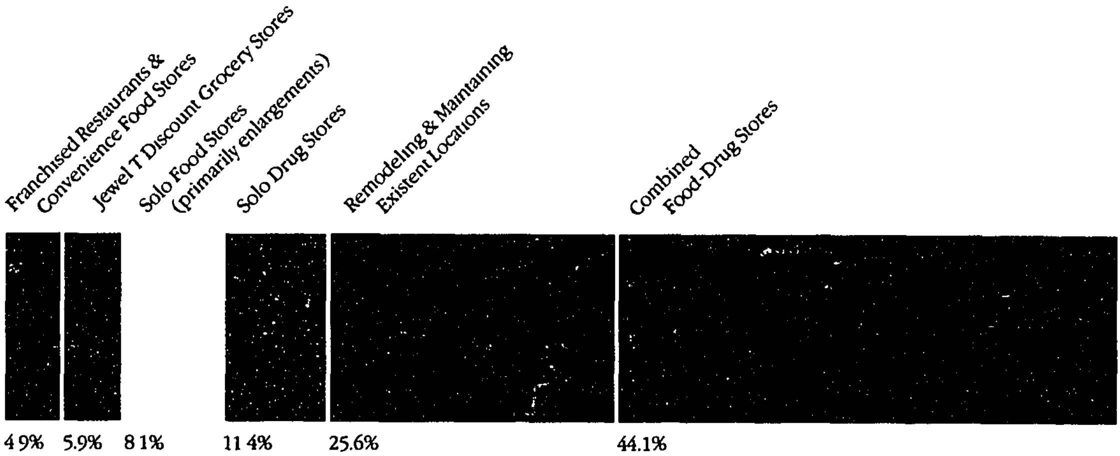
**3: To Continue Jewel's Strong Commitment To Food Retailing.**

The retail grocery store is the largest segment of retailing in this country, with 1980 grocery store sales accounting for more than one-fourth of total non-automotive retail sales. While it has some of the characteristics of a mature industry, food retailing continues to offer attractive opportunities. Jewel will invest more than $200 million in its various food retailing segments in this time period, including our combination store program, continuing to change significantly the structure of food retailing within our Company. Our investment plans for food can be further described as follows:

- Almost no money will be invested in new solo supermarkets, but ample investment will be made to keep our many supermarkets in excellent, modern condition. As supermarkets are enlarged or re-located, it will almost always be to the combination store format.
- The large, one-stop shopping combination store offers our most complete product offering and is, we think, well suited to the demographic and life style patterns we expect in the years ahead.
- Convenience food stores will continue to be a growth segment for the industry and for Jewel. At the convenience point on the value spectrum, this store type is a vital segment of retailing and Jewel intends to accelerate its investment therein. We continue to seek suitable acquisitions for this purpose.
- We believe that there is a large and increasingly apparent segment of consumers who for a variety of reasons, not all related to income level, are willing to trade-off the convenience of shopping a conventional supermarket to achieve 20-30% savings on basic grocery items. In 1977, we opened the first Jewel T Discount Grocery Store in Florida out of conviction that there needed to be a better way to serve the important price oriented segment of food shoppers. We ended 1980 with 138 Jewel T stores in Florida, Georgia, Pennsylvania, Delaware, New Jersey, Texas and California. Our progress this past year has reinforced our commitment to this concept.

While some people worry that food retailing might not be an attractive growth business, Jewel will continue to identify and develop store concepts and marketing programs to improve our service in this major retailing field. We think that there are few retailers in the United States as well positioned to capitalize on the food retailing opportunities of the 1980's as Jewel Companies, Inc.

## 1981-83 Retail Facility Expenditures




**4: To Continue Changing The Geographic Profile Of Jewel Companies, Inc.**

One of the Company's major objectives which will continue to guide us through the 1980's is to diversify geographically into regions of the country which offer potential for above average growth, thus lessening the dependence of our Company's earnings on any one regional market.

In the past decade Jewel gradually altered its geographic and sales mix profile from one which depended heavily on the Chicago and Boston markets and on supermarkets to a much broader base with operations in some of the country's better population growth areas and with considerably more of its sales coming from the higher margins of drug retailing. Over $70 million is allocated for investment in Jewel's currently existing businesses in the high growth Mountain, West South Central, Pacific, and South Atlantic regions during 1981-83.

Prior to the 1975 Chicago supermarket price war, more than one-half of Jewel's consolidated net earnings were provided by our Chicago supermarket operations. Through a combined program of geographic and product line diversification, we anticipate that within the next few years this earnings concentration will be less than 20% on a comparable accounting basis.

**5: Investment In Support Facilities.**

Jewel will continue to make significant investments in manufacturing facilities, primarily to support our own merchandising and marketing programs. We remain equally committed to capital outlay for both new and modernization programs in the support areas of warehousing, transportation, systems and offices.

**6: Acquisitions**

We continue to be interested in acquisitions and mergers involving other companies which are of the size and strength appropriate to the achievement of our goals and for which merger with Jewel would offer the advantages of being part of a diverse, successful, and exciting retailing company.

**Capital Plans**

By type of retail location, including investment in new facilities as well as in enlargements of present stores, our capital plan for retail facilities, not including real estate affiliates, during the next three years, is illustrated by the chart on this page.

It is expected that about 5.6 million square feet of new retail space will be added under this program, bringing the total to 25% more than was in operation at the end of 1980. Included are 40 new combination food/drug stores and another 24 combination stores which are either replacements or enlargements of existent units. The plan also calls for 14 new or enlarged food and drug side-by-side locations. More than 65 new solo drug stores are included, but only three new solo supermarkets are expected to be built. Over 100 franchised convenience stores and restaurants are included and Jewel T Discount Grocery Stores should more than double in number.

In terms of geographic allocation of capital, the 1981-83 plan calls for about 30% of all the dollars which will be invested in retail facilities to be allocated to West South Central, South Atlantic, Mountain and Pacific States, almost triple that of 1978-80. We will continue to invest heavily in Chicago and the Midwest but the key strategic point is that this three-year plan continues to increase Jewel's investment in areas of above average population and economic growth while it lessens the Company's dependence for domestic earnings on a single major market and on a single business segment within that market.

# Progress Report
Jewel Companies, Inc.

On this page we report in visual form on our progress toward the achievement of the Company's goals.

## Food/Drug

Emphasis on common location food and drug stores.


*Food and Drug Sales—in millions of dollars*
***Common Locations, *Total*

## Facility Improvements

Continued remodeling, enlargement and upgrading of existing retail facilities.


*Investment in Remodeling etc —in millions of dollars*

## Drug Stores

More solo drug stores in existing and new markets.


*Units*

## Aurrera

Continued investment in Aurrera, S.A.


*Equity in Aurrera Earnings—in millions of dollars*

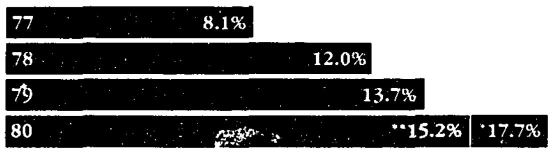
## Jewel T

Expansion of the Jewel T Discount Grocery Store chain.

*Units*

## Return on Equity

A 15% return on shareholders' equity from continuing operations.




*Return on Shareholders' Equity*
***LIFO, *FIFO*

## Franchising/Agency

Expansion of franchising and agency operations.

*Franchise and Agency Units*

## Return on Sales

U.S. earnings from continuing operations not less than 1% of sales.


*U.S. Earnings as % of Sales*
***LIFO, *FIFO*

## Support Facilities

Increased investment in manufacturing and distribution support facilities.

| | |
|---|---|
| **78** | **$13.3** |
| **79** | **$14.7** |
| **80** | **$13.9** |
| **81 Plan** | **$20.6** |

*Manufacturing and Distribution Investment—in millions of dollars*

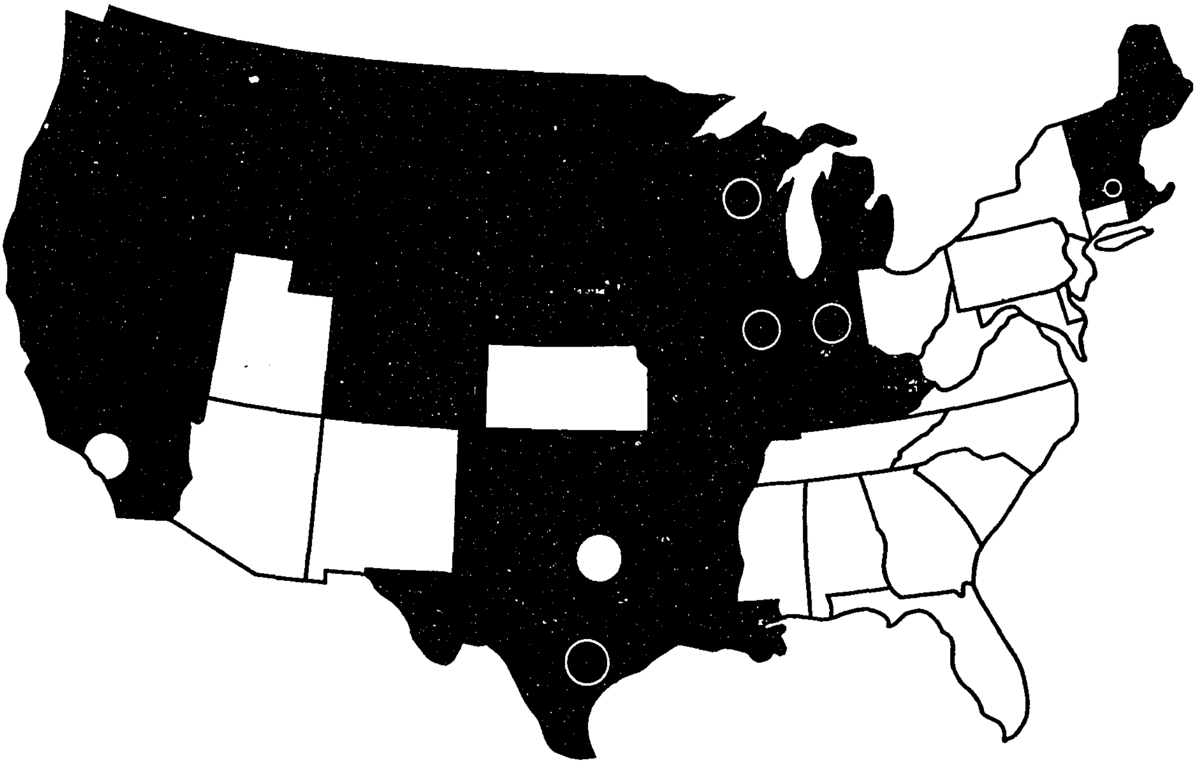
## Dividends

Increased dividends for our stockholders.


*Dividends Paid Per Share*

# Food and Drug Store Locations
Jewel Companies, Inc.

- Sav-On-Drugs (146 stores)
- Buttrey/Osco (22 Buttrey, 31 Buttrey/Osco, 9 Osco)
- Osco (42 stores)
- Jewel T Discount Grocery (138 stores)
- Jewel/Osco (107 Jewel, 100 Jewel/Osco, 31 Osco)
- Star/Osco (37 Star, 16 Star/Osco, 11 Osco)
- Eisner/Osco (10 Eisner, 22 Eisner/Osco, 18 Osco)
- White Hen Pantry (244 stores)



| Company | | Number of Stores: Beginning of Year | Opened | Closed | End of Year | Total Sq Ft. (in thousands) | Affiliated Stores |
|---|---|---|---|---|---|---|---|
| Brigham's | 1980 | 95 | 3 | 3 | 95 | 265 | |
| | 1981 plan | 95 | 8 | 0 | 103 | 281 | |
| Buttrey Food Stores | 1980 | 51 | 2 | 0 | 53 | 1,356 | |
| | 1981 plan | 53 | 5 | 1 | 57 | 1,486 | |
| Eisner Food & Agency Stores | 1980 | 32 | 2 | 2 | 32 | 787 | 59 |
| | 1981 plan | 32 | 3 | 1 | 34 | 867 | 61 |
| Jewel Food Stores | 1980 | 219 | 7 | 19 | 207 | 6,472 | |
| | 1981 plan | 207 | 11 | 5 | 213 | 6,752 | |
| Jewel T Discount Grocery | 1980 | 100 | 44 | 6 | 138 | 1,406 | |
| | 1981 plan | 138 | 54 | 5 | 187 | 1,852 | |
| Osco Drug | 1980 | 263 | 24 | 7 | 280 | 5,035 | |
| | 1981 plan | 280 | 30 | 5 | 305 | 5,549 | |
| Sav-On-Drugs | 1980 | 140 | 10 | 4 | 146 | 4,004 | |
| | 1981 plan | 146 | 8 | — | 154 | 4,249 | |
| Star Market Company | 1980 | 60 | 0 | 7 | 53 | 1,640 | 8 |
| | 1981 plan | 53 | 2 | 1 | 54 | 1,688 | 17 |
| White Hen Pantry | 1980 | 234 | 13 | 3 | 244 | 617 | |
| | 1981 plan | 244 | 25 | 5 | 264 | 667 | |

# Sav-On-Drugs

A

*Customers of all ages (A) enjoy shopping at the first Sav-On Home Center in Sylmar, California.*

Effective November 6, 1980 Sav-On-Drugs, Inc. was merged into Jewel. With Sav-On and Osco, Jewel has become one of the largest drug store operators in the country and in 1981 should generate just under $1.5 billion in sales from more than 450 drug store units.

## Some History

Sav-On-Drugs, Inc. was founded in 1945 by C. J. Call who opened his first store in San Bernardino, California. Its manager was Ira D. Brown, now Chairman and Chief Executive Officer of Sav-On.

By the standards of 1945, Sav-On's first store was a large unit featuring wide aisles, central checkout, self-service, a complete pharmacy, and a broad selection of cosmetics, health and beauty aids and general merchandise. A distinctive feature, which still remains in the present Sav-On-Drug stores, was an ice cream department featuring cones and packaged ice cream.

In October, 1968 Sav-On's stock was offered to the public for the first time.

Sav-On's first 25 years were characterized by conservative but consistent growth. New stores were built as prime locations became available. By 1970 there were 63 stores in operation. The decade of the '70s saw the number of stores increase to 140. Three new market areas were added to the Southern California primary market with store openings in Santa Clara County, California, Houston, Texas and Las Vegas, Nevada.

In March, 1978 Sav-On acquired 15 Southern California stores from another company, ten of which were located in the rapidly growing areas of Orange and San Diego Counties.

## Sav-On Today

Sav-On today operates a chain of 146 stores, of which 129 are in Southern California, six in the San Jose area of Northern California, six in Houston and five in Las Vegas, generating annual sales of about $650 million. Most stores have approximately 27,000 total square feet with a selling area of approximately 17,000 square feet or more. Neighborhood oriented and usually located in a shopping center, Sav-On stores feature a fully stocked pharmacy dispensing prescription drugs and offer a wide variety of items for personal care, home and family use.

Twelve of Sav-On's stores are "Home Centers", which are combination drug and home improvement stores. In addition to the general merchandise available in all Sav-On drugstores, the Home Centers carry a broad range of auto accessories, garden supplies and tools and lumber, as well as plumbing, painting, decorating and electrical supplies.

The number of full-time and part-time people employed by Sav-On varies seasonally from approximately 6,500 to 7,600.

Sav-On owns 42 of its stores outright, as well as its 552,000 square foot central office building and warehouse in Anaheim.

## Why Sav-On?

The merger of Sav-On-Drugs with Jewel adds importantly to Jewel's position in drug retailing and to our growth opportunities.

For a number of years Jewel has wanted to expand its drugstore investment and in particular to acquire an existing drugstore enterprise in the Western states. The dynamic California growth trends, both in population and in economic activity, make it especially attractive for modern, high quality drug store operation.

Jewel management has been familiar with Sav-On-Drugs, Inc. for many years and has admired the broad consumer acceptance achieved through the consistently high standards of value, quality and convenience in its stores. The integrity and skill of Sav-On's management is outstanding and their philosophy is consistent with Jewel's. For all these reasons, the Sav-On organization represents an outstanding addition to the Jewel family of companies.

E


*B*

*Sav-On's Home Center concept, as in this suburban Los Angeles store which opened in West Covina (B) in August, 1980, provides a wide assortment of home improvement supplies (C, D) in addition to the normal range of general merchandise (E) available in Sav-On drug stores*


*C*

*D*

A

*Vips restaurants, such as this facility on Dinamarca Street in Mexico City (A), are distinctive in both interior and exterior design*

*The new combination store at Plaza Aurrera in Guadalajara, Mexico's second largest city (B), is an 86,000 square foot facility with an outstanding produce presentation*

Jewel's 41.7% equity interest in Aurrera, S.A. continues to be a major source of earnings. Aurrera is Mexico's leading private sector retailer, operating food and general merchandise discount stores, family apparel stores and restaurants. In 1980 Aurrera concluded its 22nd year with record sales and earnings. In the fiscal year ended July 31, 1980 Aurrera's sales increased 44.9% and net earnings were up 50.6%. Net earnings were 5.6% of sales.

For the first five months of Aurrera's current fiscal year, from August through December, 1980, earnings in pesos exceeded the same period in the prior year by 77.3% on a 47.1% gain in sales.

The outstanding Aurrera growth record is reflected in the results for each of its operating businesses:

| Compound Growth for Fiscal Year Ended July 31, 1980 | Sales: Latest Year | Sales: Past Five Years | Net Earnings: Latest Year | Net Earnings: Past Five Years |
|---|---|---|---|---|
| Self Service Discount Stores | 41.5% | 33.4% | 41.8% | 34 2% |
| Restaurants | 50 8 | 40.5 | 42.1 | 46.0 |
| Fashion Apparel Stores | 71.3 | 42.3 | 52.1 | 50 0 |
| Consolidated | 44.9 | 34.6 | 50 6 | 44 4 |

Highlights of Aurrera's 1980 included the following:

- The expansion of Tiendas de Descuento (discount stores) continued. There are currently operating 26 combination food and general merchandise stores and 26 supermarkets with a total sales area of 2,086,100 square feet.
- Suburbia continued to operate eight stores with a total sales area of 516,700 square feet. In only ten years of operation, Suburbia has become one of the principal fashion apparel and accessories stores in Mexico.
- Vips and El Porton restaurants continued to expand and Aurrera currently operates 45 restaurants with aggregate seating capacity for more than 9,100 customers. This seating capacity increased 10.4% with the opening of three Vips and two El Porton restaurants.

Expansion into Mexico's "interior" will continue. By the end of 1981 Aurrera will have nine discount stores, two apparel stores and six restaurants in such cities as Guadalajara, Monterrey, Puebla and Cuernavaca. Additional investments outside the Mexico City metropolitan area are planned for the coming years.

Plans for 1981 include the opening of seven Vips and seven El Porton Restaurants, two new prototype restaurants, five large Aurrera combination general merchandise and food stores, one general merchandise discount unit and two Suburbia apparel stores.

Aurrera now has over 8,000 stockholders with public ownership of over 30% of its outstanding stock. Aurrera shares are traded actively on the Mexican Stock Exchange.

Aurrera currently provides jobs for more than 18,000 people, with an enlightened program of personnel benefits and practices.

Aurrera has maintained its payment of regular dividends, commenced in 1973, as follows:

| Fiscal Year | Earnings Per Share* (pesos) | Dividends Per Share Paid From Earnings: Amount* (pesos) | Dividends Per Share Paid From Earnings: % |
|---|---|---|---|
| 1972/73 | .28 | .09 | 31 |
| 1973/74 | 35 | .11 | 31 |
| 1974/75 | .47 | .24** | 50 |
| 1975/76 | 83 | .41 | 50 |
| 1976/77 | .86 | .43 | 50 |
| 1977/78 | 1.21 | 61 | 50 |
| 1978/79 | 1.95 | 1.00 | 51 |
| 1979/80 | 2.94 | 1.50 | 51 |

*Adjusted in all periods for stock split in June 1980 increasing outstanding shares to 360,000,000

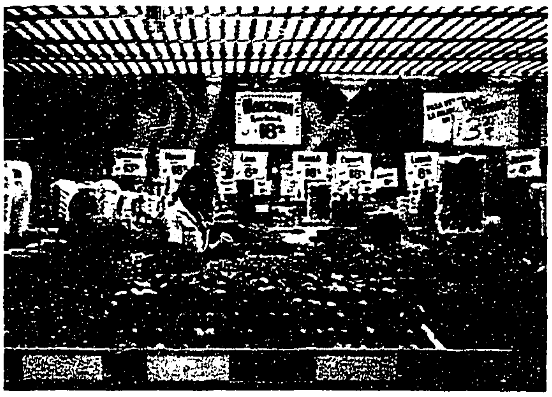
**Excludes special dividend of Ps. 99,990,000 declared in October 1975.

Mexico continues to experience dynamic economic development, with real growth running at approximately 8%. Inflation during 1980 was estimated to be almost 30% and the value of the peso in relation to the U.S. dollar declined modestly from $.0439 to $.0432.

Jewel is proud of its association with the Aurrera organization which in a highly competitive retail market place has led the way in providing modern, innovative, quality merchandising to the people of Mexico.

A significant change in Aurrera's administrative structure occurred in 1980. For the first 21 years of its existence, the Chairman of the Board of Directors, Managing Director and guiding force of Aurrera has been Jeronimo Arango, Jr. As of January, 1980, general management responsibility was delegated to other experienced Aurrera executives including Abel Prince Alfaro, President. Mr. Arango continues as Chairman of the Board of Directors.

B



*Aurrera's "Gran Bazar" in Mexico City (C) offers a vast assortment of food, apparel and general merchandise in a single store of over 188,000 square feet.*

*In December, 1980 Aurrera opened its first "Bons" store in Mexico City (D, E, F), offering general merchandise in a new self-service, low price format.*


*C*

*D*

*E*

*F*

# Management's Analysis of Earnings and Financial Condition

Jewel Companies, Inc.

**1980 Compared to 1979**

The Company achieved record earnings in 1980 of $55,983,000 or $4.76 per share, an increase of $.22 per share over 1979.

An analysis of the major factors contributing to the increase in net earnings per common share follows:

| | Increase (Decrease) |
|---|---|
| Operating earnings before unallocated expenses (FIFO) | $1.34 |
| Effect of conversion to LIFO | (.96) |
| Unallocated—net | .09 |
| Operating earnings | 47 |
| Net interest expense | (.15) |
| Effective income tax rate | 04 |
| Tax credits | .15 |
| Earnings of U.S companies | .51 |
| Equity in Aurrera | .86 |
| Increase in preferred dividends | (.19) |
| Increase in common shares outstanding | ( 08) |
| Earnings from continuing operations | 1.10 |
| Operation subject to disposition | ( 88) |
| Net earnings per common share | $ .22 |

Total sales for 1980 increased 16% over 1979. The current year sales include Sav-On-Drugs, Inc. from the date of its acquisition on November 6, 1980. Excluding the current year sales of Sav-On, Jewel's sales were 13% higher than last year. Sales in identical store units were 8% higher in 1980. The increase in 1980 includes an indeterminable effect of inflation.

Combined operating earnings of the Company's four supermarket chains were down 3.6% and contributed $.09 per share less to net earnings in 1980 than in 1979. On the FIFO basis of inventory accounting, the combined operating earnings of the Company's supermarket chains increased 15.0% and contributed $.39 per share more to 1980 net earnings than in 1979. Jewel Food Stores, Star Markets, Buttrey Food Stores and Eisner Food Stores all had substantially improved results for the year on the FIFO basis.

Drug store earnings contributed an additional $.47 per share to 1980 net earnings. On the FIFO basis, the operating earnings of the drug stores were especially strong and contributed an additional $.88 per share to 1980 net earnings. The Company acquired Sav-On-Drugs, Inc. on November 6, 1980, and the results of Sav-On are reflected in Jewel's results for the fourth quarter of 1980 only. Sav-On's operating earnings were $.45 per share on the LIFO basis of inventory accounting ($.50 per share on the FIFO basis), excluding interest expense of $.14 per share and preferred dividend requirements of $.19 per share.

Operating earnings of the Company's other businesses, in the aggregate, were approximately the same in 1980 as in 1979. White Hen Pantry's convenience stores demonstrated continuing earnings strength. Mass Feeding Corporation's results were higher despite lower sales. Park Corporation's manufacturing results were somewhat lower. The earnings of Brigham's were up slightly from 1979.

At the end of the 1980 fiscal year, Jewel operated 138 Jewel T discount grocery stores in seven states. On the LIFO basis of inventory accounting, operating losses in 1980 were approximately the same as in 1979. However, on the FIFO basis operating losses of this rapidly expanding chain were reduced by more than 30% in 1980 and in the fourth quarter it operated close to the break-even level.

Unallocated general corporate expenses and miscellaneous income increased 1980 earnings $.09 per share reflecting an after tax gain of $.07 per share from the Company's sale of shares of Pay Less Drug Stores.

Increased net interest expense is principally the result of the Company's acquisition of Sav-On-Drugs, Inc.

Higher tax credits contributed an additional $.15 per share to 1980 net earnings.

Operations of Aurrera, S.A., in which the Company has a 41.7% interest, continued on an excellent trend and contributed an additional $.86 per share to Jewel's 1980 net earnings. Aurrera's sales during Jewel's fiscal year increased 47%, in part due to Mexico's high rate of inflation, and earnings were 59.9% higher than in the previous year.

In connection with the acquisition of Sav-On-Drugs, Inc., the Company issued a new Series A $2.31 cumulative convertible preferred stock. The preferred dividend requirements of this new issue decreased net earnings applicable to common stock by $.19 per common share.

An increase in the average number of common shares outstanding during the year decreased net earnings $.08 per share in 1980.

The results of the operation subject to disposition decreased net earnings $.88 per share compared to 1979. See the Notes to financial statements.

## Liquidity and Capital Resources

The Company's working capital increased to $169,129,000 at January 31, 1981 from $121,531,000 and $103,828,000 at February 2, 1980 and February 3, 1979, respectively. The working capital at January 31, 1981 reflects a $21,542,000 LIFO inventory reserve. Prior years' working capital is based upon the FIFO method of inventory valuation. The January 31, 1981 working capital also reflects $42,066,000 of working capital of Sav-On-Drugs, Inc. The Company's current ratio was 1.5 at the end of its fiscal year compared with 1.4 at February 2, 1980 and at February 3, 1979.

The Company invested more than $92 million in new capital assets in 1980 compared with $86 million in 1979 and $81 million in 1978. During the past three years, the Company has financed approximately 90% of its investment in new long-term assets from internally generated funds. As of 1980 year end, outstanding capital expenditure commitments related to stores under construction were in amounts consistent with plans.

The Company plans to invest $350 million in capital assets during the next three years, financed primarily by internally generated funds.

Whenever possible, it is the practice of the Company to finance the land and construction for new stores and support facilities through the Company's Real Estate Affiliate corporations. In these transactions, based upon a lease to Jewel Companies, Inc., individual affiliated real estate corporations borrow approximately 99% of the cost of land and buildings; the loan is scheduled to be fully paid out of the rents received from Jewel during the fixed term of the lease, generally 20 years. The Company presently owns approximately 50% of the total square footage comprising its retail and support facilities. Utilizing Jewel Real Estate Affiliates for financing retail properties not only contributes to the growth and earnings of the Company through lower financing costs but also allows retention of the residual value of these properties for the Company.

During 1980, the Company borrowed $38 million under a revolving credit agreement to finance the cash tender offer portion of its acquisition of Sav-On-Drugs, Inc. Despite this additional long-term borrowing, the Company continued to improve its debt to total capital ratio. At January 31, 1981, the consolidated debt to total capital ratio was 40.6%, compared with 42.8% at February 2, 1980 and 43.8% at February 3, 1979. Excluding the debt of the real estate affiliates and the impact of capital leases, the debt to total capital ratio was 27.1% at January 31, 1981 compared with 24.1% at February 2, 1980 and 23.0% at February 3, 1979.

Lines of credit are maintained with commercial banks ($58,000,000 at January 31, 1981) to ensure the availability of adequate funds to meet seasonal requirements. The Company also has a $50 million revolving credit agreement, in addition to the $38 million revolving credit agreement previously mentioned, that is maintained to support the sale of commercial paper and to provide additional liquidity if needed. At January 31, 1981, no borrowings were outstanding under the $50 million revolving credit agreement.

## 1979 Compared to 1978

Total sales for the 52-week fiscal year ended February 2, 1980 increased 7.3% compared to the 53-week fiscal year ended February 3, 1979. Excluding the 53rd week in 1978 and the sales of the Company's Turn * Style division which was sold in June 1978, the sales increase was 10.7%. Each of the Company's operating divisions contributed to the sales increase. Sales in identical store units were 7% higher in 1979. The increase in 1979 includes an indeterminable effect of inflation.

Net earnings for 1979 increased $.95 per common share over 1978. An analysis of the major factors contributing to the increase follows:

| | Increase (Decrease) |
|---|---|
| Operating earnings before unallocated expenses | $ .34 |
| Unallocated—net | (11) |
| Operating earnings | .23 |
| Losses on facility dispositions | .03 |
| Net interest expense | (.14) |
| Effective income tax rate | .11 |
| Earnings of U.S. companies | 23 |
| Equity in Aurrera | .56 |
| Decrease in common shares outstanding | .09 |
| Earnings from continuing operations | 88 |
| Operation subject to disposition | .07 |
| Net earnings per common share | $ 95 |

Operating earnings of the Company's four supermarket divisions contributed an additional $.23 per share to 1979 net earnings. The increase includes $.11 per share from higher sales with the remaining improvement principally attributable to continuing improvements in inventory shrink losses and store level expenses in the Jewel Food Stores division.

General merchandise operating earnings contributed an additional $.23 per share to 1979 net earnings. The Osco drug stores achieved record sales and earnings which improved 1979 net earnings $.10 per share. The balance of the 1979 increase is principally due to 1978 results being depressed as a result of winding down operations in connection with the sale of Turn * Style in June 1978.

Operating earnings from the Company's other operations were down $.12 per share compared to 1978. The decrease includes additional start-up losses of approximately $.24 per share (as compared to $.06 per share in 1978) in the expansion program of Jewel T Discount Grocery stores which were partially offset by record operating results in the Company's White Hen Pantry convenience stores and Park Corporation's manufacturing operations.

Unallocated 1979 net earnings declined $.11 per share as 1978 included capital gains of $.12 per share from the sale of Aurrera stock in July 1978.

Increased net interest expense lowered net earnings $.14 per share. This reduction in net earnings is primarily the result of increased short-term borrowings at higher interest rates.

A lower effective income tax rate in 1979 increased net earnings $.11 per share. The decrease in the effective tax rate reflects a reduction in the federal statutory tax rate from 48% in 1978 to 46% in 1979 and higher tax credits of $.06 per share, partially offset by higher state income taxes.

Operations of Aurrera, Mexico's leading private sector retailer in which Jewel has a 41.7% interest, have continued strong in 1979. Sales for the 12 months ended December 31, 1979 increased 40.3%. The resultant increases in operating results as well as improved margins and a lower effective Mexican income tax rate have resulted in a $.56 per share increase in Jewel's equity in the earnings of Aurrera.

A decrease in the average number of common shares outstanding in 1979, as a result of the purchase of 557,600 outstanding common shares in September 1978, contributed $.09 per share to net earnings in 1979.

**1978 Compared to 1977**

The Company achieved sales and earnings records in 1978. Net earnings for the year were $3.59 per share compared to 1977 earnings of $2.29 per share, an increase of 56.8% over 1977 and 15.8% over the previous record year of 1976. The Company's 1978 fiscal year included 53 weeks versus 52 weeks in 1977.

An analysis of the major factors contributing to the $1.30 increase in net earnings per common share follows:

| | Increase (Decrease) |
|---|---|
| Operating earnings before unallocated expenses | $ .48 |
| Unallocated—net | .05 |
| Operating earnings | .53 |
| Losses on facility dispositions | .42 |
| Interest income | .09 |
| Interest expense | (.03) |
| Effective income tax rate | (.06) |
| Earnings of U.S. companies | .95 |
| Equity in Aurrera | .32 |
| Decrease in common shares outstanding | 04 |
| Earnings from continuing operations | 1 31 |
| Operation subject to disposition | (.01) |
| Net earnings per common share | $1.30 |

Total sales for the 53-week fiscal year ended February 3, 1979 increased 7.5% over the 52-week fiscal year ended January 28, 1978. Excluding the sales of the Company's Turn * Style division which was sold in June 1978, the increase was 12.6% due primarily to a 10.8% sales increase in the four supermarket companies. Sales in identical store units were higher by 10.7%. The increase in 1978 includes an indeterminable effect of inflation.

Total operating earnings before unallocated expenses improved $.48 per share. Particular strength was reflected in all of the Company's supermarket chains, the combined operating earnings of which increased $.48 per share. The largest percentage increases were contributed by the Star Market and Eisner Food Store divisions. The operating earnings of Jewel Food Stores, the Company's largest unit, increased 22% over 1977.

General merchandise operating earnings declined $.14 per share for the year primarily because of losses incurred by the Company's Turn * Style self-service department stores prior to its sale in June 1978. Despite the erosion of margins resulting from aggressive sales promotions and new store openings, operating earnings from Osco's drug stores showed moderate improvement and contributed an additional $.02 per share for the year.

Operating earnings from the Company's other operations increased $.14 per share compared to 1977. The increase includes $.09 per share from the manufacturing operations of Park Corporation as it achieved the highest earnings in its history.

Losses on facility dispositions in 1978 amounted to $.03 per share compared to $.45 per share in 1977. The losses in 1978 include a $900,000 pre-tax provision for the planned sale of the assets of the Company's Republic Lumber division; 1977 losses consisted principally of a pre-tax provision of $7,300,000 for the sale of the Company's Turn * Style division.

Higher interest income increased net earnings $.09 per share in 1978 as the result of increased short-term investments. Additional interest expense of the Company's affiliated real estate corporations relating to new store financings lowered net earnings in 1978 by $.03 per share.

A higher effective income tax rate, primarily the result of lower investment tax credits, decreased net earnings $.06 per share in 1978. Investment tax credits were reduced in 1977 because of recapture provisions relating to the sale of Turn * Style which were considered in the earnings per share impact of the Turn * Style disposition. Excluding the 1977 recapture, investment tax credits were less in 1978 as the result of a reduction in qualifying equipment expenditures.

Operating results of Aurrera, S.A., Mexico's leading retailer in which the Company has a 41.7% interest, reached a record high and Jewel's equity in Aurrera's net earnings contributed an additional $.32 per share to 1978 net earnings.

A decrease in the average number of common shares outstanding for the year, as a result of the purchase of 557,600 outstanding common shares for the treasury in 1978, contributed $.04 per share to net earnings in 1978.

# Summary of Significant Accounting Policies

Jewel Companies, Inc.

### Financial Statements

Prior year financial statements have been restated to segregate the assets, liabilities and operating results of the operation subject to disposition to conform with the 1980 presentation.

### Principles Applied in Consolidation

The consolidated financial statements include the accounts of Jewel Companies, Inc., its wholly-owned subsidiaries and its affiliated real estate corporations. All significant intercompany transactions are eliminated.

### Inventories

Inventories are valued at the lower of cost or market. In 1980, the Company changed its method of valuing inventories from the first-in, first-out (FIFO) to the last-in, first-out (LIFO) method for approximately 87% of its inventories. Cost for the balance of the inventories at January 31, 1981 and for all inventories at February 2, 1980 was determined on a FIFO or weighted average basis.

### Investment in Aurrera, S.A.

The Company's investment in Aurrera, S.A. (Mexico), 41.7% owned as of January 31, 1981 and February 2, 1980, is carried at cost plus equity in undistributed earnings since its acquisition in 1969. The excess of cost over acquired net assets is not being amortized because there has been no diminution in value.

### Land, Buildings and Equipment

Land, buildings and equipment are stated at cost and include certain assets acquired through the use of long-term lease obligations. Depreciation is computed on the straight-line method for financial statement purposes and on accelerated methods for tax purposes. Leasehold improvements and capital leases are amortized over the shorter of estimated physical life or the term of the lease. Useful lives average 32 years for buildings, 15 years for leasehold improvements, 10 years for equipment and 3-6 years for transportation equipment.

The cost of land, buildings and equipment is eliminated from the accounts at the time assets are sold or retired. Differences between net book value and proceeds on normal equipment dispositions are recorded in the accumulated depreciation account. Gains and losses on the disposition of land and buildings are reflected in the statement of earnings.

### Income Taxes

The Company recognizes investment tax credits as a reduction of federal income tax expense in the year in which the related assets are placed into service.

### Other Deferred Liabilities

Costs associated with the Company's contingent compensation plans and self-insurance program are charged against current earnings. The portion of such costs estimated to be payable in the ensuing year is included in Current Liabilities with the balance included in Other Deferred Liabilities.

### Pre-opening Costs

Pre-opening costs are charged to expense as incurred.

# Statements of Earnings

Jewel Companies, Inc.

| (In thousands except per share data) | 52 Weeks Ended Jan. 31, 1981 | 52 Weeks Ended Feb. 2, 1980 | 53 Weeks Ended Feb. 3, 1979 |
|---|---|---|---|
| Sales | $4,267,922 | $3,684,929 | $3,434,113 |
| Costs of Doing Business: | | | |
| Cost of goods sold | 3,435,838 | 2,939,007 | 2,728,352 |
| Selling, general and administrative expenses | 740,713 | 664,544 | 630,512 |
| | 4,176,551 | 3,603,551 | 3,358,864 |
| Operating Earnings | 91,371 | 81,378 | 75,249 |
| Losses on Facility Dispositions | — | — | (712) |
| Interest Income | 3,314 | 2,356 | 2,945 |
| Interest Expense: | | | |
| Jewel Companies, Inc. | (19,415) | (15,259) | (12,399) |
| Real estate affiliates | (10,897) | (10,881) | (11,133) |
| Earnings of U.S. Companies From Continuing Operations Before Income Taxes | 64,373 | 57,594 | 53,950 |
| Income Taxes | 24,242 | 22,824 | 21,851 |
| Earnings of U.S. Companies From Continuing Operations | 40,131 | 34,770 | 32,099 |
| Equity in Net Earnings of Aurrera, S.A. | 24,416 | 14,543 | 8,476 |
| Earnings From Continuing Operations | 64,547 | 49,313 | 40,575 |
| Earnings (Loss) From Operation Subject to Disposition, Net of Income Taxes | (8,654) | 1,373 | 567 |
| Net Earnings | $ 55,893 | $ 50,686 | $ 41,142 |
| Primary Earnings Per Average Common Share Outstanding: | | | |
| Earnings of U.S. companies from continuing operations | $ 3.36 | $ 3.12 | $ 2.80 |
| Equity in net earnings of Aurrera, S.A. | 2.16 | 1.30 | .74 |
| Earnings from continuing operations | 5.52 | 4.42 | 3.54 |
| Earnings (loss) from operation subject to disposition, net of income taxes | (.76) | .12 | .05 |
| Net earnings | $ 4.76 | $ 4.54 | $ 3.59 |
| Fully Diluted Earnings Per Share: | | | |
| Earnings from continuing operations | $ 5.31 | $ 4.34 | $ 3.53 |
| Earnings (loss) from operation subject to disposition, net of income taxes | (.71) | .12 | .05 |
| Net earnings | $ 4.60 | $ 4.46 | $ 3.58 |

# Statements of Retained Earnings

| | | | |
|---|---|---|---|
| Balance, Beginning of Year | $ 303,346 | $ 271,458 | $ 246,341 |
| Net Earnings | 55,893 | 50,686 | 41,142 |
| Cash Dividends Declared: | | | |
| 3¾% preferred stock—$3.75 per share | (30) | (40) | (47) |
| Series A preferred stock—$.56 per share | (2,161) | — | — |
| Common stock—$1.92 in 1980; $1.68 in 1979; $1.405 in 1978 | (21,777) | (18,758) | (15,978) |
| Balance, End of Year | $ 335,271 | $ 303,346 | $ 271,458 |

The accompanying notes and summary of significant accounting policies are an integral part of the financial statements.

# Statements of Financial Position

Jewel Companies, Inc.

| (In thousands) | January 31, 1981 | February 2, 1980 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash | $ 17,853 | $ 29,926 |
| Short-term investments | 20,133 | 10,760 |
| Accounts receivable | 42,005 | 37,709 |
| Inventories | 426,999 | 296,715 |
| Prepaid expenses and other | 18,909 | 17,381 |
| Total current assets | 525,899 | 392,491 |
| Investment in Aurrera, S.A. | 75,873 | 58,468 |
| Land, Buildings and Equipment, net. | | |
| Jewel Companies, Inc. | 471,743 | 356,734 |
| Real estate affiliates | 180,507 | 175,452 |
| Total land, buildings and equipment | 652,250 | 532,186 |
| Net Assets of Operation Subject to Disposition | — | 13,967 |
| Excess of Cost over Net Assets Acquired | 17,095 | — |
| Other Assets | 17,784 | 6,893 |
| | $1,288,901 | $1,004,005 |
| **Liabilities and Shareholders' Equity** | | |
| Current Liabilities: | | |
| Accounts payable | $ 169,176 | $ 127,601 |
| Payrolls and other accrued expenses | 166,046 | 123,931 |
| Income taxes payable | 4,489 | 4,936 |
| Net liabilities of operation subject to disposition | 2,450 | — |
| Current maturities of long-term debt: | | |
| Jewel Companies, Inc. | 7,086 | 6,957 |
| Real estate affiliates | 7,523 | 7,535 |
| Total current liabilities | 356,770 | 270,960 |
| Long-Term Debt, less current maturities. | | |
| Jewel Companies, Inc. | 230,525 | 159,624 |
| Real estate affiliates | 118,661 | 123,450 |
| Deferred Income Taxes | 46,879 | 50,141 |
| Other Deferred Liabilities | 25,060 | 22,195 |
| Shareholders' Equity: | | |
| Preferred stock—3¾% cumulative $100 par value—authorized and issued 16,500 shares at January 31, 1981 | 1,650 | 1,650 |
| Series A preferred stock—$2.31 cumulative convertible—$1 par value—authorized 5,000,000 shares, issued 3,854,201 shares at January 31, 1981 | 96,311 | — |
| Common stock—$1 par value—authorized 25,000,000 shares, issued 11,678,441 shares at January 31, 1981 | 85,992 | 86,449 |
| Retained earnings | 335,271 | 303,346 |
| Treasury stock, at cost | (8,218) | (13,810) |
| Total shareholders' equity | 511,006 | 377,635 |
| | $1,288,901 | $1,004,005 |

The accompanying notes and summary of significant accounting policies are an integral part of the financial statements.

# Statements of Changes in Financial Position

Jewel Companies, Inc.

| (In thousands) | 52 Weeks Ended Jan. 31, 1981 | 52 Weeks Ended Feb 2, 1980 | 53 Weeks Ended Feb 3, 1979 |
|---|---|---|---|
| **Source of Funds** | | | |
| From continuing operations: | | | |
| Earnings | $ 64,547 | $ 49,313 | $ 40,575 |
| Charges and (credits) not affecting funds: | | | |
| Depreciation and amortization | 61,814 | 55,466 | 52,523 |
| Deferred taxes and other deferred liabilities | (397) | 5,438 | 4,080 |
| Undistributed net earnings of Aurrera, S.A. | (16,728) | (9,364) | (5,344) |
| | 109,236 | 100,853 | 91,834 |
| From operation subject to disposition: | | | |
| Earnings (loss) | (8,654) | 1,373 | 567 |
| Depreciation and amortization | 1,270 | 1,197 | 1,169 |
| | (7,384) | 2,570 | 1,736 |
| From financing: | | | |
| Issuance of stock | 5,229 | 1,217 | 1,780 |
| Long-term debt: | | | |
| Jewel Companies, Inc. | 56,761 | 25,337 | 1,517 |
| Real estate affiliates | 4,298 | 5,065 | 8,050 |
| Preferred stock issued for Sav-On-Drugs, Inc. | 96,269 | — | — |
| Disposals of land, buildings and equipment | 9,678 | 6,031 | 5,050 |
| Proceeds from sale of Turn*Style assets, net of $16,432 inventory sold | — | — | 11,732 |
| Total funds provided | $274,087 | $141,073 | $121,699 |
| **Use of Funds** | | | |
| Acquisition of Sav-On-Drugs, Inc., less working capital acquired: | | | |
| Land, buildings and equipment | $100,411 | $ — | $ — |
| Other assets | 7,105 | — | — |
| Excess of cost over net assets acquired | 17,196 | — | — |
| Long-term debt and capital lease obligations | (23,318) | — | — |
| Dividends to shareholders | 23,968 | 18,798 | 16,025 |
| New land, buildings and equipment: | | | |
| Jewel Companies, Inc. | 79,261 | 78,766 | 69,494 |
| Real estate affiliates | 13,154 | 7,720 | 11,301 |
| Acquisition of treasury stock, net | 52 | 298 | 15,016 |
| Repayment of long-term debt: | | | |
| Jewel Companies, Inc. | 9,178 | 7,908 | 6,958 |
| Real estate affiliates | 9,087 | 7,972 | 8,204 |
| Other | 4,478 | 1,934 | (2,706) |
| Net assets of operation subject to disposition | (14,083) | (26) | 1,039 |
| Increase (decrease) in working capital | 47,598 | 17,703 | (3,632) |
| Total funds used | $274,087 | $141,073 | $121,699 |
| **Change in Working Capital** | | | |
| Increase (decrease) in current assets: | | | |
| Current assets of Sav-On-Drugs, Inc. | $118,325 | $ — | $ — |
| Cash | (5,946) | 8,710 | (4,658) |
| Short-term investments | 9,347 | (32,463) | 10,375 |
| Accounts receivable | 1,356 | 3,092 | 10,201 |
| Inventories | 13,844 | 33,389 | 13,984 |
| Prepaid expenses and other | (3,519) | 6,357 | (367) |
| | 133,407 | 19,085 | 29,535 |
| Increase (decrease) in current liabilities: | | | |
| Current liabilities of Sav-On-Drugs, Inc. | 76,259 | — | — |
| Accounts payable | (22,470) | 1,627 | 18,876 |
| Payrolls and other accrued expenses | 29,455 | (850) | 14,668 |
| Income taxes payable | 320 | 351 | 114 |
| Net liabilities of operation subject to disposition | 2,450 | — | — |
| Current maturities of long-term debt | (205) | 254 | (491) |
| | 85,809 | 1,382 | 33,167 |
| Increase (decrease) in working capital | $ 47,598 | $ 17,703 | $ (3,632) |

 The accompanying notes and summary of significant accounting policies are an integral part of the financial statements.

# Management's Responsibility for Financial Reporting

Management is responsible for the preparation of the Company's consolidated financial statements, including the related notes. The statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and necessarily include some amounts that are based on management's best estimates and judgments.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance at reasonable cost that Company assets are adequately protected, transactions are executed in accordance with management's authorization and financial records are reliable as a basis for preparation of financial statements. The system of controls includes careful selection and training of financial management personnel, delegation of authority and division of responsibility, dissemination of formal accounting and business policies, and an internal audit program to monitor the effectiveness of the control system. While there are limits inherent in all systems of internal accounting control based on the recognition that the cost of such systems should not exceed the benefits to be derived, management believes the Company's system provides this appropriate balance.

The Company has distributed to key employees its policies for conducting business affairs. Management believes that the policies and procedures provide reasonable assurance that its operations are transacted in conformity with the law and consistent with high ethical standards. At regular times during the year, the Company's internal and external auditors meet privately with the Chairman of the Board and the President to review their audit work, the Company's internal controls and financial reporting matters.

The Company's financial statements have been examined by Touche Ross & Co., independent certified public accountants. Their examination was made in accordance with generally accepted auditing standards and included a review of the internal accounting control systems.

The Board of Directors, acting through its Audit Committee comprised solely of outside directors, oversees the fulfillment by management of its responsibilities in the preparation of financial statements and financial control of operations. The Audit Committee recommends, subject to Board of Directors approval, the selection of the Company's independent public accountants. In 1980, the Committee met four times and reviewed the scope, timing and cost of the Company's internal and external audit programs as well as the results of audit examinations completed by the Company's internal and external auditors. The Company's independent public accountants and internal audit department have full and free access to the Audit Committee.

*W. R. Christopherson, Chairman of the Board and Chief Executive Officer*

*L. Howe, Vice Chairman and Chief Financial Officer*

# Report of Independent Certified Public Accountants

To the Shareholders and Board of Directors,
Jewel Companies, Inc.

We have examined the consolidated statements of financial position of Jewel Companies, Inc. as of January 31, 1981 and February 2, 1980 and the related statements of earnings, retained earnings and changes in financial position for each of the three fiscal years in the period ended January 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have not examined the financial statements of Aurrera, S.A., a Mexican company in which Jewel has a 41.7% interest at January 31, 1981. The consolidated financial statements of Aurrera, S.A. for each of its three fiscal years in the period ended July 31, 1980 were examined by other independent auditors whose unqualified report thereon has been furnished to us.

In our opinion, which as to amounts with respect to Aurrera, S.A. for each of its three fiscal years in the period ended July 31, 1980 is based on the report of other independent auditors described above, the financial statements referred to above present fairly the consolidated financial position of Jewel Companies, Inc. as of January 31, 1981 and February 2, 1980, and the results of its operations and the changes in its financial position for each of the three years in the period ended January 31, 1981, in conformity with generally accepted accounting principles consistently applied during the period except for the change in 1980, with which we concur, to the last-in, first-out method of valuing inventories as described in the Notes to Financial Statements.

TOUCHE ROSS & CO.

*Chicago, Illinois*
*March 21, 1981*

## Acquisition

Effective November 6, 1980 the Company acquired Sav-On-Drugs, Inc. The Company acquired 28.3% of the outstanding common shares of Sav-On for $37,929,000 in a cash tender offer that expired on September 19, 1980 and received the remaining Sav-On common shares in exchange for 3,850,745 shares of a new issue of Jewel $2.31 cumulative convertible preferred stock with a fair market value of $96,269,000. The total cost of the acquisition, including expenses, was $138,274,000. The excess of the total acquisition cost over the fair value of net assets acquired was $17,196,000 and is being amortized on the straight-line basis over forty years.

The acquisition has been accounted for as a purchase. Accordingly, the results of operations of Sav-On have been included in the consolidated results of the Company since November 6, 1980.

The following unaudited pro forma data present the results of operations of the Company as if Sav-On had been acquired at the beginning of fiscal 1979. The following data reflects adjustments for interest on borrowed funds, amortization of goodwill, additional depreciation on revalued purchased assets, the conversion from accelerated to straight-line depreciation for book purposes for certain of Sav-On's assets and preferred dividend requirements for the new cumulative convertible preferred stock.

| (In thousands except per share data) | 1980 | 1979 |
|---|---|---|
| Sales | $4,731,567 | $4,211,924 |
| Earnings from continuing operations | 66,028 | 55,412 |
| Net earnings | 57,374 | 56,785 |
| Per average common share outstanding— | | |
| Primary: | | |
| Earnings from continuing operations | 5 06 | 4 17 |
| Net earnings | 4 29 | 4 29 |
| Fully diluted | | |
| Earnings from continuing operations | 4 63 | 3 93 |
| Net earnings | 4 03 | 4 02 |

During 1979, Sav-On adopted the LIFO method of inventory valuation. However, Jewel used the FIFO method of inventory valuation. Assuming both Jewel and Sav-On used the FIFO method in 1979, the primary and fully-diluted net earnings per share would have been $4.53 and $4.22, respectively.

## Change in Accounting for Inventories

During fiscal 1980, the Company changed its method of accounting for approximately 87% of its inventories from the first-in, first-out (FIFO) to the last-in, first-out (LIFO) method. This change in inventory valuation was made to conserve cash for the business by reducing taxes and to provide for better comparability of the financial statements of the Company with those of other major retailers.

This change in accounting for inventories had the effect of reducing primary net earnings in 1980 from $66,685,000 or $5.72 per share of common stock to $55,893,000 or $4.76 per share of common stock. There is no cumulative effect on retained earnings at the beginning of the year and pro forma results for the prior year are not determinable. The carrying value of inventories stated at LIFO cost was approximately $21,542,000 less than the amount of such inventories stated at FIFO cost at January 31, 1981.

## Operation Subject to Disposition

In January 1981, the Company announced its plans to discontinue ownership of the Jewel Home Shopping Service and to transfer the assets of that business to a cooperative organization to be formed and managed by certain of its former employees. It is expected that the transfer of the business will be completed by May 1981.

The loss from the operation subject to disposition consists of the following:

| (In thousands) | 1980 | 1979 | 1978 |
|---|---|---|---|
| Sales | $69,099 | $79,337 | $82,239 |
| Costs and expenses | 71,744 | 77,544 | 81,326 |
| Earnings (loss) before income taxes | (2,645) | 1,793 | 913 |
| Income taxes (benefit) | (1,376) | 420 | 346 |
| Earnings (loss) from operations | (1,269) | 1,373 | 567 |
| Provision for loss on operation subject to disposition, net of income tax benefit of $6,698 | (7,385) | — | — |
| Earnings (loss) from operation subject to disposition | $ (8,654) | $ 1,373 | $ 567 |

The provision for loss from the operation subject to disposition includes reserves for operating losses after January 31, 1981, asset write-offs and accrued termination and other costs. The net (liabilities) assets of the operation subject to disposition consist of the following:

| (In thousands) | Jan. 31, 1981 | Feb 2, 1980 |
|---|---|---|
| Current assets | $15,546 | $17,837 |
| Land, buildings and equipment—net | 4,315 | 4,492 |
| Total assets | 19,861 | 22,329 |
| Current liabilities | 8,228 | 8,362 |
| Reserve for disposition loss | 14,083 | — |
| Total liabilities | 22,311 | 8,362 |
| Net (liabilities) assets | $ (2,450) | $13,967 |

## Land, Buildings and Equipment

The Company's investment in land, buildings and equipment consists of the following:

| | January 31, 1981 | | February 2, 1980 | |
|---|---|---|---|---|
| (In thousands) | Jewel Cos., Inc | Real Estate Affiliates | Jewel Cos , Inc. | Real Estate Affiliates |
| Buildings | $ 86,172 | $172,257 | $ 49,803 | $163,478 |
| Less allowance for depreciation | 24,830 | 46,633 | 18,501 | 42,074 |
| | 61,342 | 125,624 | 31,302 | 121,404 |
| Equipment and leasehold improvements | 643,321 | | 541,255 | |
| Less allowance for depreciation and amortization | 319,300 | | 269,195 | |
| | 324,021 | | 272,060 | |
| Leased assets under capital leases | 56,278 | | 52,121 | |
| Less allowance for amortization | 21,101 | | 19,772 | |
| | 35,177 | | 32,349 | |
| Land | 51,203 | 54,883 | 21,023 | 54,048 |
| | $471,743 | $180,507 | $356,734 | $175,452 |

## Short-Term and Long-Term Debt

Debt shown in the statements of financial position consists of the following:

| (In thousands) | Jan. 31, 1981 | Feb. 2, 1980 |
|---|---|---|
| Jewel Companies, Inc · | | |
| Commercial Paper, 17.51% and 13.17% average rate, supported by revolving credit agreement | $ 38,390 | $ 21,284 |
| Commercial Banks: | | |
| 4 50%, due in annual installments of $1,250 through 1987 | 8,750 | 10,000 |
| $38,000 Revolving Credit Agreement, interest at 105% of prime rate | 38,000 | — |
| $50,000 Revolving Credit Agreement | — | — |
| Insurance Companies: | | |
| 6.875%, due in annual installments of $1,500 through 1993 | 19,500 | 21,000 |
| 7 875%, due in annual installments of $1,500 through 1994 | 21,000 | 22,500 |
| 8.25%, due in semi-annual installments of $1,500 from 1983 through 1997 with the balance due in 1997 | 50,000 | 50,000 |
| 10%, due in 1985 | 7,000 | — |
| Mortgages, 8 91% average rate, due through 2001 | 13,215 | — |
| Capital Lease Obligations, 9 48% and 9.39% average rate, due through 2000 | 40,293 | 39,998 |
| All Other, 6 28% and 6 12% average rate, due through 1997 | 1,463 | 1,799 |
| Total debt | $237,611 | $166,581 |
| Classified as follows: | | |
| Current maturities | $ 7,086 | $ 6,957 |
| Long-term debt | 230,525 | 159,624 |
| Total debt | $237,611 | $166,581 |
| Real Estate Affiliates, mortgages, 8 51% and 8.44% average rate, due through 2005. | | |
| Current maturities | $ 7,523 | $ 7,535 |
| Long-term debt | 118,661 | 123,450 |
| Total debt | $126,184 | $130,985 |

Long-term debt matures as follows:

| | January 31, 1981 | |
|---|---|---|
| (In thousands) | Jewel Cos., Inc. | Real Estate Affiliates |
| 1982 | $ 10,013 | $ 7,712 |
| 1983 | 14,699 | 7,407 |
| 1984 | 29,380 | 7,292 |
| 1985 | 37,364 | 7,487 |
| Thereafter | 139,069 | 88,763 |
| | $230,525 | $118,661 |

To finance the Tender Offer in connection with the acquisition of Sav-On-Drugs, Inc., the Company borrowed $38,000,000 from The First National Bank of Chicago under a revolving credit and term loan agreement dated September 3, 1980. The loan bears interest, payable quarterly, at an annual rate equal to 105% of the prevailing prime interest rate, until August 3, 1981. On or before August 3, 1981, the Company may convert this revolving credit note to a term note. The term note will be payable in quarterly installments aggregating 5% of the original principal amount during the first year, 10% during the second year, 15% during the third year, 20% during the fourth and fifth years, and 30%, or so much of the amount that remains unpaid, during the sixth year.

The Company maintains a $50,000,000 revolving credit term loan agreement with two of its principal banks. The agreement provides for a commitment fee of ½% per annum on the daily unused portion and interest at 105% of the prevailing prime rate on any borrowings until December 31, 1983. On or before December 31, 1983, the Company may convert all, or any part of, the outstanding balance into a term loan payable in twelve equal quarterly installments with interest at 108% of the prime rate. On January 31, 1981 and February 2, 1980, no borrowings were outstanding under this agreement; however, at January 31, 1981 and February 2, 1980, $38,390,000 and $21,284,000, respectively, of outstanding commercial paper was classified as long-term debt based on the Company's expectation that short-term borrowings averaging in excess of this amount will be outstanding during the ensuing year in the form of either commercial paper or notes under the revolving credit agreement.

Lines of credit are maintained with commercial banks ($58,000,000 at January 31, 1981 and $56,500,000 at February 2, 1980) to ensure the availability of adequate funds to meet seasonal requirements. Most of the bank lines are supported by cash balances which are largely generated from the normal time lag in presentation of Company checks for payment. The arrangements with the banks are informal in nature and do not restrict the availability of such supporting funds in meeting the Company's daily cash requirements. A small portion of the bank lines are supported by the payment of fees in lieu of balances.

The maximum amount of short-term borrowings outstanding during 1980 was $94,000,000 and averaged $39,450,000 on a daily basis. The average interest rate on these borrowings was 13.51%. For fiscal year 1979, the maximum amount outstanding was $66,450,000 and averaged $28,950,000 on a daily basis. The average interest rate on these borrowings was 12.23%.

The Company's loan agreements provide restrictions as to the maintenance of working capital (as defined) and payment of cash dividends on common stock. As of January 31, 1981, working capital was $89,000,000 in excess of minimum requirements and retained earnings not restricted for payment of cash dividends were $72,000,000.

The long-term debt of the real estate affiliates is not a direct obligation of Jewel Companies, Inc. but is secured by the assignment of lease agreements between Jewel and the affiliates and first liens against real properties having a book value of approximately $181,000,000 at January 31, 1981, as compared to $175,000,000 at February 2, 1980. The debt will be fully paid during the fixed term of each lease, generally 20 years.

**Income Taxes**

The provision for income taxes of continuing operations consists of the following:

| (In thousands) | 1980 | 1979 | 1978 |
|---|---|---|---|
| Federal | | | |
| Current | $26,008 | $20,828 | $21,368 |
| Deferred | 1,238 | 2,865 | 3,054 |
| Tax credits | (7,975) | (6,261) | (5,558) |
| | 19,271 | 17,432 | 18,864 |
| State and Local | | | |
| Current | 4,821 | 5,092 | 2,692 |
| Deferred | 150 | 300 | 295 |
| | 4,971 | 5,392 | 2,987 |
| | $24,242 | $22,824 | $21,851 |

Deferred income taxes result from timing differences in the recognition of certain income and expense items for tax and financial statement purposes. The provision for deferred federal income taxes consists of the following:

| (In thousands) | 1980 | 1979 | 1978 |
|---|---|---|---|
| Depreciation | $ 3,542 | $ 4,588 | $ 3,316 |
| Losses on facility dispositions | 535 | 644 | 2,486 |
| Self-insured claims | (2,114) | (727) | (1,232) |
| Other | (725) | (1,640) | (1,516) |
| | $ 1,238 | $ 2,865 | $ 3,054 |

A reconciliation of the federal statutory tax rate with the effective tax rate follows:

| | 1980 | 1979 | 1978 |
|---|---|---|---|
| Statutory tax rate | 46 0% | 46 0% | 47.8% |
| State income taxes, net of federal income tax benefit | 3.0 | 4 0 | 2.5 |
| Tax credits | (9 0) | (8 7) | (8.9) |
| Other | (.1) | (.4) | (2) |
| Effective tax rate on U S. earnings | 39.9 | 40 9 | 41.2 |
| Effect of foreign earnings | (12 6) | (9.3) | (6.2) |
| Effective tax rate | 27.3% | 31 6% | 35.0% |

No provision has been made for U.S. income taxes on foreign earnings because any income tax payable would be substantially offset by foreign tax credits.

The Internal Revenue Service is presently examining the federal income tax returns of the Company and its subsidiaries, excluding Sav-On-Drugs, Inc. and its subsidiaries, for fiscal years 1976 and 1977, and of Sav-On-Drugs, Inc. and its subsidiaries for calendar years 1978 and 1979. While the outcome of these examinations is not determinable at this time, in the opinion of management, income tax reserves are adequate for all years for which the Company's liability has not been finally resolved.

## Capital Stock

Common stock transactions were as follows:

| (Dollars in thousands) | Shares | Amount |
|---|---|---|
| Issued at January 29, 1978 | 11,600,836 | $85,150 |
| Issued for stock option and stock purchase plans | 74,600 | 1,418 |
| Cost of treasury shares sold over proceeds from stock option and stock purchase plans | — | (77) |
| Income tax benefit attributable to stock options | — | 153 |
| Issued at February 3, 1979 | 11,675,436 | 86,644 |
| Issued for stock option and stock purchase plans | 2,903 | 67 |
| Cost of treasury shares sold over proceeds from stock option and stock purchase plans | — | (333) |
| Income tax benefit attributable to stock options | — | 71 |
| Issued at February 2, 1980 | 11,678,339 | 86,449 |
| Cost of treasury shares sold over proceeds from stock option and stock purchase plans | — | (1,797) |
| Conversion of Series A convertible preferred stock | 102 | 4 |
| Income tax benefit attributable to stock options | — | 1,336 |
| Issued at January 31, 1981 | 11,678,441 | $85,992 |

Treasury stock transactions were as follows:

| | Common Stock | | 3¾% Preferred | |
|---|---|---|---|---|
| (Dollars in thousands) | Shares | Amount | Shares | Amount |
| Balance at January 29, 1978 | — | $ — | 3,169 | $194 |
| Purchases | 557,600 | 14,933 | 845 | 83 |
| Sold under stock option and stock purchase plans | (10,650) | (286) | — | — |
| Balance at February 3, 1979 | 546,950 | 14,647 | 4,014 | 277 |
| Purchases | — | — | 3,800 | 298 |
| Sold under stock option and stock purchase plans | (52,714) | (1,412) | — | — |
| Balance at February 2, 1980 | 494,236 | 13,235 | 7,814 | 575 |
| Purchases | — | — | 669 | 52 |
| Sold under stock option and stock purchase plans | (226,564) | (5,644) | — | — |
| Balance at January 31, 1981 | 267,672 | $ 7,591 | 8,483 | $627 |

The 3¾% preferred treasury shares were acquired to meet the sinking fund provisions of the issue, which require full retirement by 1985. Sinking fund requirements are satisfied through 1982.

In connection with the acquisition of Sav-On-Drugs, Inc., the Company issued 3,850,745 shares of a new issue of Series A $2.31 cumulative convertible preferred stock. The shares have a liquidation preference of $25 per share and are entitled to .713 of a vote per share. The shares are convertible into .713 of a share of common stock and are callable at the option of the Company after ten years at $26 per share and thereafter at prices declining to $25 in the fifteenth and subsequent years. On November 6, 1980, 2,753,282 shares of Jewel common stock were reserved for issuance upon conversion of the preferred stock.

At January 31, 1981 and February 2, 1980, common stock was reserved as follows:

| | Jan 31, 1981 | Feb 2, 1980 |
|---|---|---|
| Stock option plan | 991,029 | 874,629 |
| Employee stock purchase plan | 183,101 | 196,235 |
| Automatic dividend reinvestment and stock purchase plan | 48,377 | 60,435 |
| Conversion of Series A preferred stock | 2,753,180 | — |
| | 3,975,687 | 1,131,299 |

The following summary shows the changes in stock options:

| | 1980 | 1979 |
|---|---|---|
| Options outstanding, beginning of year | 868,150 | 700,650 |
| Granted | 226,500 | 253,500 |
| Exercised | (283,600) | (28,750) |
| Expired | (45,500) | (57,250) |
| Options outstanding, end of year | 765,550 | 868,150 |

| | Jan. 31, 1981 | Feb. 2, 1980 |
|---|---|---|
| Options exercisable | 541,550 | 615,150 |
| Shares available for grant | 225,479 | 6,479 |

Outstanding options were granted at prices ranging from $16.875 to $34.125 per share, the fair market value on the date of grant. Non-qualified stock options become exercisable one year from the date of grant and expire in ten years.

As part of the acquisition of Sav-On-Drugs, Inc., the Company assumed outstanding stock options to purchase Sav-On common stock and converted each stock option into a stock option to purchase a number of shares of Jewel's Series A $2.31 cumulative convertible preferred stock equal to .72 times the number of shares of Sav-On common stock covered by each option. During the period November 7, 1980 to January 31, 1981, options to purchase 3,600 Series A $2.31 cumulative convertible preferred stock at $12.67 per share were exercised. Options to purchase an additional 7,200 shares at $12.67 per share remain outstanding at January 31, 1981. The options expire in 1983. At January 31, 1981, there were reserved 7,200 shares of Jewel Series A $2.31 cumulative convertible preferred stock for issuance under this stock option plan.

Under the Company's Automatic Dividend Reinvestment and Stock Purchase Plan, shareholders of record may purchase additional shares of common stock by reinvesting dividends and making optional cash investments without payment of any brokerage commission or service charge.

## Lease Commitments

The Company leases certain of its retail and other locations under firm-term lease arrangements ranging from 5 to 25 years (principally 15 years for retail locations), plus various renewal options. In addition, the Company has an insignificant number of personal property leases (primarily transportation, warehouse handling and data processing equipment) expiring at various dates during the next four years.

As of January 31, 1981 minimum rentals on all non-cancellable leases for real properties under operating leases were as follows:

| (In thousands) | Minimum Payments | Sublease Income | Net |
|---|---|---|---|
| 1981 | $ 41,464 | $ 4,394 | $ 37,070 |
| 1982 | 39,912 | 4,090 | 35,822 |
| 1983 | 37,662 | 3,765 | 33,897 |
| 1984 | 34,335 | 3,350 | 30,985 |
| 1985 | 30,538 | 2,991 | 27,547 |
| Thereafter | 235,906 | 17,581 | 218,325 |
| Total minimum rent expense | $419,817 | $36,171 | $383,646 |

Rentals for leased real properties for the past three years were as follows:

| (In thousands) | 1980 | 1979 | 1978 |
|---|---|---|---|
| Minimum rentals | $36,907 | $29,274 | $25,763 |
| Contingent rentals (based on sales) | 7,355 | 5,737 | 4,574 |
| Sublease income | (4,536) | (4,521) | (3,716) |
| | $39,726 | $30,490 | $26,621 |

## Business Segments

The Company is a diversified retailer engaged primarily in the retail sale of food and general merchandise. The Company is engaged in the supermarket business under the Buttrey, Eisner, Jewel and Star trade names and in the drug store business under the Osco Drug and Sav-On-Drugs trade names. Other operations include White Hen Pantry (convenience stores), Brigham's (ice cream, candy and sandwich stores), Mass Feeding Corporation (school lunch programs), Park Corporation (manufacturing operations) and Jewel T (limited-line discount grocery stores).

Operating earnings are total sales less operating expenses. In computing operating earnings, none of the following items have been added or deducted: losses on facility dispositions, interest income, interest expense, income taxes, earnings or losses from the operation subject to disposition and equity in Aurrera, S.A.

Identifiable assets are those assets associated with a particular segment either by direct use or by allocation when used by two or more segments. Unallocated assets include short-term investments and certain land, buildings and equipment.

| (In thousands) | 1980 | 1979 | 1978 |
|---|---|---|---|
| Sales | | | |
| Supermarkets | $3,021,989 | $2,817,944 | $2,681,639 |
| Drug stores* | 859,903 | 608,304 | 584,889 |
| Other operations | 386,030 | 258,681 | 167,585 |
| Total sales | $4,267,922 | $3,684,929 | $3,434,113 |
| Operating Earnings Before Unallocated Expenses | | | |
| Supermarkets | $ 55,447 | $ 57,496 | $ 52,159 |
| Drug stores* | 31,459 | 21,312 | 15,971 |
| Other operations | 4,710 | 4,811 | 6,886 |
| Total | 91,616 | 83,619 | 75,016 |
| Unallocated—net** | (245) | (2,241) | 233 |
| Total operating earnings | $ 91,371 | $ 81,378 | $ 75,249 |
| Identifiable Assets | | | |
| Supermarkets | $ 613,379 | $ 589,610 | $ 550,463 |
| Drug stores* | 438,595 | 200,171 | 185,521 |
| Other operations | 85,200 | 67,657 | 41,276 |
| Investment in Aurrera, S.A. | 75,873 | 58,468 | 48,745 |
| Unallocated | 75,854 | 88,099 | 123,851 |
| Total identifiable assets | $1,288,901 | $1,004,005 | $ 949,856 |
| Capital Expenditures (net) | | | |
| Supermarkets | $ 55,274 | $ 53,571 | $ 57,300 |
| Drug stores* | 25,286 | 14,641 | 12,402 |
| Other operations | 9,208 | 13,933 | 4,275 |
| Unallocated | 2,647 | 4,341 | 6,818 |
| Total capital expenditures | $ 92,415 | $ 86,486 | $ 80,795 |
| Depreciation Expense | | | |
| Supermarkets | $ 41,446 | $ 38,516 | $ 36,219 |
| Drug stores* | 9,851 | 7,579 | 9,063 |
| Other operations | 5,381 | 3,957 | 3,044 |
| Unallocated | 5,136 | 5,414 | 4,197 |
| Total depreciation expense | $ 61,814 | $ 55,466 | $ 52,523 |

*Includes Sav-On since its acquisition on November 6, 1980 and Turn * Style prior to its sale in June 1978

**Unallocated consists principally of general corporate expenses and miscellaneous income.

The change to the LIFO method of accounting for inventories reduced 1980 operating earnings, by segment, as follows:

| (In thousands) | 1980 |
|---|---|
| Supermarkets | $10,678 |
| Drug stores | 9,151 |
| Other operations | 1,713 |
| Total operating earnings | $21,542 |

## Losses on Facility Dispositions

Facility disposition losses in 1978 include a $900,000 provision for the sale of the assets of the Company's Republic Lumber division, which was sold in April 1979, and a $188,000 reduction in the 1977 provision for the sale of the Company's Turn * Style division, which was completed in June 1978.

### Profit Sharing and Retirement Costs

A majority of the Company's employees who meet service requirements are covered by profit sharing plans under which the Company makes annual contributions, determined by a formula related to earnings, to provide retirement benefits. These funds are held in trust apart from Company funds. Retirement benefits are based on each participant's share of the trust funds. There are no unfunded past service liabilities under these plans. The Company also makes payments to multiemployer pension plans as required by collective bargaining agreements covering some employees; under the Multiemployer Pension Plan Amendments Act of 1980 ("MEPPA"), the Company may be or may become subject to liabilities in excess of those payments in the event of the termination of or its withdrawal or partial withdrawal from multiemployer plans, to be determined as a proportional share of the liabilities, if any, of each such plan for unfunded, vested benefits. The amount of this potential liability under MEPPA is not determinable at the present time.

### Contingent Liabilities—Litigation

In addition to claims and lawsuits arising in the normal course of the Company's business, as of January 31, 1981, there were various actions pending against the Company for substantial damages, trebled, under antitrust laws.

These include fourteen antitrust actions under federal law filed by certain cattle producers and feeders since 1975, against Jewel and others alleging price fixing in the purchase and sale of beef. Plaintiffs in one of these actions seek to maintain a class action. All of these actions have been consolidated for pre-trial and discovery purposes in the U.S. District Court in Dallas, Texas. In December 1977, the Court dismissed seven of these actions on the basis of the U.S. Supreme Court's decision in the Illinois Brick case that only direct sellers and purchasers could recover damages under federal antitrust laws; plaintiffs filed appeals in six of these seven cases and a suit similar to the seventh was filed in California under state antitrust laws. In August 1979, the U.S. Court of Appeals for the Fifth Circuit reversed the dismissals. In October 1980, the U.S. Supreme Court denied petitions for *certiorari;* the six cases have been returned to the District Court for further evidentiary proceedings and the parties have been ordered to commence discovery.

Although management cannot now predict the outcome of these actions, it believes that the Company has good and meritorious defenses to each action, and that their outcome will not materially affect the Company's financial position.

### Earnings Per Common Share

Earnings per common share is computed by dividing net earnings, after deducting preferred stock dividend requirements, by the weighted average number of common shares outstanding. Fully diluted net earnings per share assumes conversion of the Series A cumulative convertible preferred stock and the exercise of dilutive outstanding stock options. The Series A preferred dividend requirement is not deducted from net earnings in computing fully diluted net earnings per share.

The computation of primary and fully diluted earnings per share follows:

| (In thousands except per share data) | 1980 | 1979 | 1978 |
|---|---|---|---|
| **Primary earnings per share—** | | | |
| Net earnings | $55,893 | $50,686 | $41,142 |
| Less: Preferred dividend requirements for 3¾% cumulative preferred stock and Series A preferred stock | 2,191 | 40 | 47 |
| Net earnings applicable to common stock | $53,702 | $50,646 | $41,095 |
| Average common shares outstanding | 11,293 | 11,155 | 11,442 |
| Primary earnings per share | $ 4.76 | $ 4.54 | $ 3.59 |
| **Fully diluted earnings per share—** | | | |
| Net earnings | $55,893 | $50,686 | $41,142 |
| Less: Preferred dividend requirements for 3¾% cumulative preferred stock | 30 | 40 | 47 |
| Net earnings applicable to common stock | $55,863 | $50,646 | $41,095 |
| Average common shares outstanding | 11,293 | 11,155 | 11,442 |
| Additional shares outstanding after application of treasury stock method: | | | |
| Stock option plan | 203 | 197 | 34 |
| Employee stock purchase plan | 4 | 4 | 1 |
| Conversion of Series A preferred stock | 642 | — | — |
| Average common shares outstanding assuming full dilution | 12,142 | 11,356 | 11,477 |
| Fully diluted earnings per share | $ 4.60 | $ 4.46 | $ 3.58 |

### Costs and Expenses

Set forth below is a comparative summary of significant costs and expenses:

| (In thousands) | 1980 | 1979 | 1978 |
|---|---|---|---|
| Depreciation and Amortization | | | |
| Jewel Companies, Inc. | | | |
| Buildings | $ 1,837 | $ 1,473 | $ 1,405 |
| Equipment and leasehold improvements | 51,564 | 45,677 | 43,161 |
| Capital leases | 2,916 | 2,975 | 2,903 |
| | 56,317 | 50,125 | 47,469 |
| Real estate affiliates | | | |
| Buildings | 5,497 | 5,341 | 5,054 |
| | $61,814 | $55,466 | $52,523 |
| Taxes, Other than Income | | | |
| Payroll | $44,903 | $40,589 | $35,627 |
| Property | 17,284 | 13,586 | 13,798 |
| Other | 2,151 | 1,613 | 1,811 |
| | $64,338 | $55,788 | $51,236 |
| Rents | | | |
| Real estate | $39,726 | $30,490 | $26,621 |
| Personal property | 6,121 | 5,632 | 3,830 |
| | $45,847 | $36,122 | $30,451 |
| Advertising | $49,635 | $41,514 | $41,931 |
| Retirement Benefit Plans | | | |
| Profit sharing plans | $19,467 | $14,468 | $14,277 |
| Contingent compensation | 4,043 | 2,254 | 2,325 |
| Industry and other pension plans | 6,352 | 5,364 | 5,151 |
| | $29,862 | $22,086 | $21,753 |

## **Quarterly Data** (Unaudited)

(In thousands except per share data)

### 1980 (LIFO)

| | Quarter | | | | |
|---|---|---|---|---|---|
| | First (12 Weeks) | Second (16 Weeks) | Third (12 Weeks) | Fourth (12 Weeks) | Total Year |
| Sales | $ 884,907 | $1,212,510 | $ 951,726 | $1,218,779 | $4,267,922 |
| Gross profit | 171,624 | 229,525 | 182,980 | 247,955 | 832,084 |
| Earnings. | | | | | |
| Continuing operations | 9,366 | 14,453 | 11,492 | 29,236 | 64,547 |
| Operation subject to disposition | (390) | (926) | (591) | (6,747) | (8,654) |
| Total | $ 8,976 | $ 13,527 | $ 10,901 | $ 22,489 | $ 55,893 |
| Primary earnings per share: | | | | | |
| Continuing operations | $ 84 | $ 1 28 | $ 1 01 | $ 2 39 | $ 5 52 |
| Operation subject to disposition | ( 03) | ( 09) | ( 05) | ( 59) | (.76) |
| Total | $ 81 | $ 1.19 | $ 96 | $ 1 80 | $ 4.76 |
| Dividends declared per common share | $ .48 | $ 48 | $ 48 | $ 48 | $ 1 92 |
| Common stock price (Composite tape) | | | | | |
| High | $ 28⅞ | $ 32¾ | $ 34 | $ 36¼ | $ 36¼ |
| Low | $ 22⅛ | $ 24⅜ | $ 29⅜ | $ 28½ | $ 22⅛ |

The change to the LIFO method of inventory valuation in 1980 reduced gross profit and net earnings in 1980 as follows:

| | | Net Earnings | |
|---|---|---|---|
| Quarter | Gross Profit | Total | Per Share |
| First | $ 4,776 | $ 2,396 | $ 22 |
| Second | 6,369 | 3,195 | .29 |
| Third | 4,673 | 2,344 | 21 |
| Fourth | 5,724 | 2,857 | 24 |
| Total year | $ 21,542 | $ 10,792 | $ 96 |

### 1979 (FIFO)

| | Quarter | | | | |
|---|---|---|---|---|---|
| | First (12 Weeks) | Second (16 Weeks) | Third (12 Weeks) | Fourth (12 Weeks) | Total Year |
| Sales | $ 799,419 | $1,108,234 | $ 842,786 | $ 934,490 | $3,684,929 |
| Gross profit | 157,138 | 227,631 | 165,571 | 195,582 | 745,922 |
| Earnings: | | | | | |
| Continuing operations | 7,861 | 14,463 | 8,329 | 18,660 | 49,313 |
| Operation subject to disposition | 1,241 | (364) | (370) | 866 | 1,373 |
| Total | $ 9,102 | $ 14,099 | $ 7,959 | $ 19,526 | $ 50,686 |
| Primary earnings per share: | | | | | |
| Continuing operations | $ .71 | $ 1 29 | $ .75 | $ 1.67 | $ 4 42 |
| Operation subject to disposition | 11 | ( 03) | (.04) | .08 | 12 |
| Total | $ 82 | $ 1.26 | $ .71 | $ 1 75 | $ 4.54 |
| Dividends declared per common share | $ 42 | $ 42 | $ .42 | $ 42 | $ 1 68 |
| Common stock price (Composite tape): | | | | | |
| High | $ 25 | $ 27 | $ 26⅜ | $ 30⅛ | $ 30⅛ |
| Low | $ 20 | $ 22⅜ | $ 22½ | $ 22⅞ | $ 20 |

**Condensed Financial Statements–Aurrera, S.A.** (Unaudited)

The Company had a 41.7% interest in Aurrera, S.A. as of January 31, 1981 and February 2, 1980. Jewel's investment, carried on the equity method, constituted 5.9% and 5.8% of its total assets at those respective dates. Jewel's equity in the net earnings of Aurrera, S.A. constituted 43.7%, 28.7% and 20.6% of Jewel's consolidated net earnings for the fiscal years ended January 31, 1981, February 2, 1980 and February 3, 1979, respectively.

The fiscal year of Aurrera, S.A. ends on July 31 whereas the Company's fiscal year ends on or about January 31. However, the Company determines its equity in the net earnings of Aurrera, S.A. based on financial statements of Aurrera, S.A. at December 31. The financial statements of Aurrera, S.A. at December 31, 1980, 1979 and 1978 are based upon audited financial statements examined by a major international public accounting firm as of July 31, 1980, 1979 and 1978, the end of Aurrera's fiscal year, and unaudited financial statements for the periods from August 1 to December 31. Following is a condensed summary of Aurrera's financial statements:

**Statements of Financial Position**

| (In thousands) | December 31, 1980 | December 31, 1979 |
|---|---|---|
| Aurrera (in Pesos) | | |
| Current and other assets | Ps. 5,996,979 | Ps. 3,509,370 |
| Properties, net* | 5,427,881 | 3,576,116 |
| Total assets | 11,424,860 | 7,085,486 |
| Current liabilities | 5,753,906 | 3,595,937 |
| Long-term debt | 123,053 | 33,020 |
| Net assets per Aurrera statements* | Ps 5,547,901 | Ps 3,456,529 |
| U.S. translation | $ 273,895 | $ 186,054 |
| Reconciliation to Jewel's Investment | | |
| Equity in net assets per Aurrera statements | $ 114,193 | $ 77,570 |
| Adjustments to conform with Jewel's accounting practices: | | |
| Cumulative income adjustments | 3,962 | 1,808 |
| Reorganization/revaluation adjustments not recognized by Jewel* | (54,832) | (33,460) |
| Excess of cost over acquired net assets | 12,550 | 12,550 |
| Carrying value of investment | $ 75,873 | $ 58,468 |

**Statements of Earnings**

| (In thousands) | Year Ended December 31, 1980 | Year Ended December 31, 1979 | Year Ended December 31, 1978 |
|---|---|---|---|
| Aurrera (in Pesos) | | | |
| Sales | Ps 22,645,672 | Ps.15,407,889 | Ps.10,985,290 |
| Earnings before statutory profit sharing and income taxes* | 2,449,430 | 1,608,905 | 1,069,067 |
| Statutory profit sharing | (144,431) | (114,351) | (86,078) |
| Income taxes | (882,295) | (604,948) | (460,152) |
| Net earnings per Aurrera statements* | Ps. 1,422,704 | Ps. 889,606 | Ps. 522,837 |
| U.S translation | $ 60,165 | $ 37,357 | $ 21,268 |
| Reconciliation to Jewel's Equity in Net Earnings | | | |
| Equity in net earnings per Aurrera statements | $ 25,084 | $ 15,575 | $ 9,162 |
| Adjustments to conform with Jewel's accounting practices* | 2,053 | 703 | 335 |
| Dividend withholding tax provided | (2,721) | (1,735) | (1,021) |
| Equity in net earnings of Aurrera, S.A. | $ 24,416 | $ 14,543 | $ 8,476 |

*Includes effects of revaluation of properties to recognize inflation.

**Information on Effects of Changing Prices** (Unaudited)

The financial information presented elsewhere in this Annual Report has been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars. It is generally recognized that financial statements prepared under the historical cost basis do not adequately reflect the effects of inflation. In an attempt to measure the effects of inflation, the Financial Accounting Standards Board (FASB) has issued Statement No. 33—Financial Reporting and Changing Prices, requiring certain public companies to include in their annual reports as supplementary information adjusted historical financial information to illustrate the impact of changing prices. Two different methods were prescribed by the FASB for measuring the effects of changing prices.

The first method provides data adjusted for "general inflation" using the Consumer Price Index for all Urban Consumers as the broad-based measure of the general inflation rate. The objective of this approach is to provide financial information in dollars of equivalent value or purchasing power (constant dollars). This measure of inflation encompasses a wide range of commodities such as food, housing, medical care and energy costs, and assumes consumers continually purchase fixed quantities of the same goods and services regardless of price and alternative substitutes. This Index is not representative of the changing sales mix in the Company's food, drug and other retail businesses and therefore will not necessarily disclose the impact of inflation on such businesses.

The second method of measurement adjusts for "changes in specific prices." The objective of this method is to reflect the current cost of the resources actually used in a company's operations rather than the historical cost amounts actually expended to acquire the resources. Adjustments presented below for changes in specific prices of land, buildings and equipment are based both on internal and external price indexes specifically or closely related to the assets being measured. During 1980, the Company adopted the LIFO method of inventory valuation for approximately 87% of its inventories. Therefore, the effect of the adjustment to inventories and cost of products sold for those inventories not accounted for under the LIFO method is relatively small. For 1979, current prices for inventories and cost of products sold are based on internally generated measurements of price changes.

Statement No. 33 does not permit any adjustments to income tax expense because companies are not permitted for income tax purposes to recognize the effects of inflation. As a result, in the accompanying statement, income taxes must be provided at historical amounts and cannot be adjusted for either the constant dollar or current value restatements even though the adjustments may create inflation-adjusted losses. Consequently, the effective tax rates for both the constant dollar and current value restatements are significantly higher than statutory rates.

The net effect of inflation adjustments to inventory, property and monetary liabilities is an increase in the shareholders' equity of the Company, partially the result of a purchasing power gain on net amounts owed. During a period of inflation, holders of current assets excluding inventories (defined as monetary assets by Statement No. 33) suffer a loss of general purchasing power, while holders of liabilities experience a gain. Since the Company's liabilities at each year end were larger than the current assets excluding inventories, an unrealized gain results. The gain will not be realized, however, until the liabilities are paid in the future with dollars of less purchasing power. Similarly, the increase in shareholders' equity is not available for dividends until the revalued net assets are realized at the inflation-adjusted amounts.

The accompanying supplemental information regarding Jewel's operations should be used with care. Both the constant dollar and current value methods involve the use of assumptions, estimates and subjective judgments and, therefore, the data presented does not have the precision or verifiability of data prepared in accordance with traditional accounting practices. For the same reason, the data may not be comparable with that presented by other companies, even within the same industry. Management does not believe that the constant dollar restatement of Jewel's financial results properly reflects the effect of inflation on the Company's operations. Further, the restated net assets should not be interpreted as a measure of the current value of the Company's resources.

**Statement of Earnings**

Adjusted for Effects of Changing Prices

| | 52 Weeks Ended January 31, 1981 | | |
|---|---|---|---|
| (In thousands) | As Reported in the Primary Financial Statements | Adjusted for General Inflation | Adjusted for Changes in Specific Prices |
| Sales | $4,267,922 | $4,267,922 | $4,267,922 |
| Costs of Doing Business: | | | |
| Cost of goods sold | 3,420,493 | 3,445,493 | 3,427,493 |
| Depreciation and amortization | 61,814 | 93,814 | 88,814 |
| Selling, general and administrative expenses | 694,244 | 694,244 | 694,244 |
| | 4,176,551 | 4,233,551 | 4,210,551 |
| Operating Earnings | 91,371 | 34,371 | 57,371 |
| Net Interest Expense | (26,998) | (26,998) | (26,998) |
| Earnings of U.S. Companies From Continuing Operations Before Income Taxes | 64,373 | 7,373 | 30,373 |
| Income Taxes | 24,242 | 24,242 | 24,242 |
| Earnings (Loss) of U S Companies From Continuing Operations | 40,131 | (16,869) | 6,131 |
| Equity in Net Earnings of Aurrera, S.A. | 24,416 | 24,416 | 24,416 |
| Earnings From Continuing Operations | $ 64,547 | $ 7,547 | $ 30,547 |
| Purchasing Power Gain From Holding Net Monetary Liabilities During the Year | | $ 67,000 | $ 67,000 |
| Increase in General Price Level of Inventories and Net Land, Buildings and Equipment Held During the Year | | | $ 144,000 |
| Effect of Increase in Specific Prices* | | | 77,000 |
| Excess of Increase in the General Price Level Over Increase in Specific Prices | | | $ 67,000 |

*At January 31, 1981 current cost of inventory was $462,123,000 and current cost of land, buildings and equipment net of accumulated depreciation was $944,845,000.

## Five Year Comparison of Selected Supplementary Financial Data

Adjusted for Effects of Changing Prices

| (In thousands except per share data) | 1980 | 1979 | 1978 | 1977 | 1976 |
|---|---|---|---|---|---|
| Sales (includes Sav-On since 11/6/80 and Turn * Style prior to June 1978): | | | | | |
| As reported | $4,267,922 | $3,684,929 | $3,434,113 | $3,195,146 | $2,880,295 |
| Adjusted for general inflation | 4,267,922 | 4,172,345 | 4,344,528 | 4,361,155 | 4,191,813 |
| Earnings (loss) from continuing operations: | | | | | |
| As reported | $ 64,547 | $ 49,313 | | | |
| Adjusted for general inflation | 7,547 | (14,365) | | | |
| Adjusted for specific price changes | 30,547 | 1,487 | | | |
| Primary earnings (loss) per share from continuing operations | | | | | |
| As reported | $ 5 52 | $ 4.42 | | | |
| Adjusted for general inflation | 47 | (1 29) | | | |
| Adjusted for specific price changes | 2.51 | .12 | | | |
| Purchasing power gain from holding net monetary liabilities during the year | $ 67,000 | $ 75,000 | | | |
| Net assets at year end: | | | | | |
| As reported | $ 511,006 | $ 377,635 | | | |
| Adjusted for general inflation | 818,000 | 734,000 | | | |
| Adjusted for specific price changes | 815,000 | 737,000 | | | |
| Cash dividends declared per common share: | | | | | |
| As reported | $ 1 92 | $ 1.68 | $ 1.405 | $ 1 30 | $ 1.275 |
| Adjusted for general inflation | 1 92 | 1 90 | 1.78 | 1.77 | 1 86 |
| Market price per common share at year end· | | | | | |
| Historical amount | $ 35.50 | $ 28 63 | $ 20.13 | $ 18 63 | $ 23 63 |
| Adjusted for general inflation | 33 95 | 30 58 | 24 49 | 24 78 | 33.57 |
| Average Consumer Price Index (1967 = 100.0) | 249 1 | 220 0 | 196 9 | 182 5 | 171 2 |

# Five Year Summary of Selected Financial Data

Jewel Companies, Inc.

| (In thousands except per share data) | 1980 LIFO (A) | 1980 FIFO (B) | 1979 | 1978* | 1977 | 1976 |
|---|---|---|---|---|---|---|
| **Operating Results** | | | | | | |
| Sales | $4,267,922 | $4,267,922 | $3,684,929 | $3,434,113 | $3,195,146 | $2,880,295 |
| Earnings of U.S. companies from continuing operations | $ 40,131 | $ 50,923 | $ 34,770 | $ 32,099 | $ 21,013† | $ 22,416 |
| Equity in net earnings of Aurrera | 24,416 | 24,416 | 14,543 | 8,476 | 4,889 | 12,056†† |
| Earnings from continuing operations | 64,547 | 75,339 | 49,313 | 40,575 | 25,902 | 34,472 |
| Operation subject to disposition | (8,654) | (8,654) | 1,373 | 567 | 684 | 1,290 |
| Net earnings | $ 55,893 | $ 66,685 | $ 50,686 | $ 41,142 | $ 26,586 | $ 35,762 |
| Earnings of U.S. companies from continuing operations as a percent of sales | .94% | 1.19% | .94% | .93% | .66% | .78% |
| Earnings from continuing operations as a percent of shareholders' average equity | 15.2% | 17.7% | 13.7% | 12.0% | 7.9% | 11.0% |
| **Per Share Results** | | | | | | |
| Primary earnings per common share: | | | | | | |
| Earnings from continuing operations | $ 5.52 | $ 6.48 | $ 4.42 | $ 3.54 | $ 2.23 | $ 2.99 |
| Operation subject to disposition | (.76) | (.76) | .12 | .05 | .06 | .11 |
| Net earnings | $ 4.76 | $ 5.72 | $ 4.54 | $ 3.59 | $ 2.29 | $ 3.10 |
| Fully diluted earnings per common share: | | | | | | |
| Earnings from continuing operations | $ 5.31 | $ 6.20 | $ 4.34 | $ 3.53 | $ 2.22 | $ 2.97 |
| Operation subject to disposition | (.71) | (.71) | .12 | .05 | .06 | .11 |
| Net earnings | $ 4.60 | $ 5.49 | $ 4.46 | $ 3.58 | $ 2.28 | $ 3.08 |
| Dividends declared per common share | $ 1.92 | | $ 1.68 | $ 1.405 | $ 1.30 | $ 1.275 |
| Percent of net earnings | 40% | | 37% | 39% | 57% | 41% |
| Equity per common share | $ 36.27 | | $ 33.69 | $ 30.87 | $ 28.58 | $ 27.64 |
| **Financial Position** | | | | | | |
| Working capital | $ 169,129 | | $ 121,531 | $ 103,828 | $ 107,460 | $ 83,937 |
| Total assets | 1,288,901 | | 1,004,005 | 949,856 | 906,323 | 837,654 |
| Long-term debt, less current maturities: | | | | | | |
| Jewel Companies, Inc. | 230,525 | | 159,624 | 142,195 | 147,636 | 130,969 |
| Real estate affiliates | 118,661 | | 123,450 | 126,357 | 126,511 | 118,922 |
| Common shareholders' equity | 413,893 | | 376,766 | 343,579 | 331,614 | 318,868 |
| **Other Statistical Data** | | | | | | |
| Employees (full-time equivalents)** | 39.0 | | 33.4 | 33.4 | 35.2 | 35.1 |
| Square footage of retail stores: | | | | | | |
| Supermarkets | 10,255 | | 10,562 | 10,523 | 10,500 | 10,186 |
| Drug stores** | 9,039 | | 4,644 | 4,582 | 6,627 | 6,409 |
| Other operations | 2,288 | | 2,014 | 1,068 | 898 | 852 |
| Total at year end | 21,582 | | 17,220 | 16,173 | 18,025 | 17,447 |

* 53-week year, other years 52 weeks.
** Includes Sav-On since its acquisition on November 6, 1980 and Turn * Style prior to its sale in June 1978.
† Includes $9,242 or $ 80 per share in facility disposition losses.
†† Includes $3,829 or $ 33 per share due to the devaluation of the Mexican peso on September 1, 1976.
(A) For 1980, the Company adopted the last-in, first-out (LIFO) method of inventory valuation for approximately 87% of its inventories.
(B) First-in, first-out (FIFO) data is presented as supplementary information for comparison to 1979 and prior years which were reported on the FIFO basis

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Ira D. Brown
Chairman and Chief Executive Officer
Sav-On-Drugs, Inc.

Robert L Call
President and Chief Operating Officer
Sav-On-Drugs, Inc.

Silas S. Cathcart
Chairman and Chief Executive Officer, Illinois Tool Works, Inc. (Fasteners, Tools, Electronic Components & Plastic Packaging Products)

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Chairman of the Board of Directors and Chief Executive Officer

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President and Chief Operating Officer

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Executive Vice President and President of Travel Related Services Group, American Express Company

Lawrence Howe
Vice Chairman

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Partner, Isham, Lincoln & Beale (Attorneys)

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R. W. Reneker

Executive Committee
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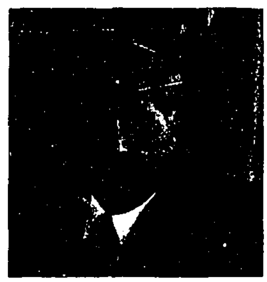
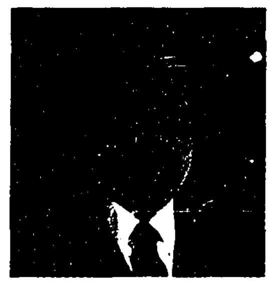
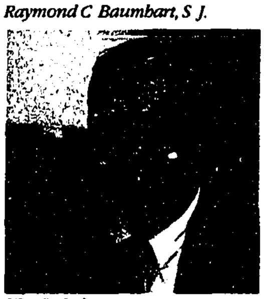
S S. Cathcart
W. R. Christopherson
R. G. Cline
L. Howe
R. B. Ogilvie


*Raymond C Baumhart, S J.*


*Karl D Bays*


*Ira D Brown*


*Robert L Call*


*Silas S Cathcart*

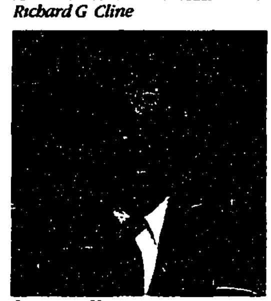

*Weston R. Christopherson*


*Richard G Cline*


*Stephen M DuBrul, Jr*

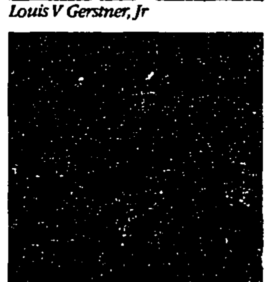

*Lawrence E. Fouraker*


*Louis V Gerstner, Jr*


*Lawrence Howe*


*Richard B Ogilvie*


*James E Olson*


*Donald S Perkins*


*Barbara Scott Preiskel*


*Robert W. Reneker*

## Corporate Officers

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Chairman, Board of Directors and Chief Executive Officer

Richard G. Cline
President and Chief Operating Officer

Lawrence Howe
Vice Chairman

Donald S. Perkins
Chairman, Executive Committee of the Board of Directors

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Executive Vice President, Real Estate and Construction

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Vice President and Controller

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Vice President, Human Resources

Charles E. McClellan
Vice President, Taxes

Samuel J. Parker
Vice President, Business Development

Jacob J. Schnur
Vice President and *Chief Real Estate Counsel*

## The Jewel Companies

Brigham's
30 Mill Street
Arlington, Mass. 02174
Robert C. Nakasone

Buttrey Food Stores
601 Sixth Street, S.W.
Box 5008
Great Falls, Montana 59403
Philip R. Palm

Eisner Food & Agency Stores
301 East Wilbur Heights Road
Champaign, Illinois 61820
David L. Diana

Jewel Food Stores
1955 West North Avenue
Melrose Park, Illinois 60160
James H. Henson

Jewel T Discount Grocery
Jewel Park
Barrington, Illinois 60010
Ronald D. Peterson

Mass Feeding Corporation
First Federal Office Plaza
1699 East Woodfield Road
Schaumburg, Illinois 60193
K. Lee Guse

Osco Drug, Inc.
1818 Swift Drive
Oakbrook, Illinois 60521
Richard E. George

The Park Corporation
511 Lake Zurich Road
Barrington, Illinois 60010
Herman T. Landon

Sav-On-Drugs, Inc.
1500 S. Anaheim Blvd.
Anaheim, Ca. 92805
Ira D. Brown
Robert L. Call

Star Market Company
625 Mt. Auburn Street
Cambridge, Mass. 02138
Jo H. Armstrong

White Hen Pantry
666 Industrial Drive
Elmhurst, Illinois 60126
Robert G. Robertson

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Robert W. Reneker died suddenly on April 27, 1981. An outstanding businessman and a distinguished citizen of Chicago, Mr. Reneker had been a valued member of Jewel's Board of Directors since 1977. His wise counsel and warm spirit will be deeply missed.

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